

FEDERAL BUREAU OF INVESTIGATION
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FOI/PA# 1362084-0

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TO FBI PHOENIX (58C-PX-NEW)/PRIORITY/

FBI LOS ANGELES/PRIORITY/

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CITE: //0622//

SUBJECT: ALLEGATIONS CONCERNING U.S. SENATORS ALAN CRANSTON,
DENNIS DECONCINI, JOHN GLENN, JOHN MCCAIN, DONALD RIEGLE,
CHARLES H. KEATING, DBA LINCOLN SAVINGS AND LOAN (S & L)
ASSOCIATION OF CALIFORNIA AND AMERICAN CONTINENTAL
CORPORATION, PHOENIX, ARIZONA; CORRUPTION OF STATE AND LOCAL
PUBLIC OFFICIALS-LEGISLATIVE; OO: PHOENIX; OO: LOS ANGELES

REFERENCE MEETING AT FBIHQ ON NOVEMBER 8, 1989, WITH
REPRESENTATIVES FROM THE FBI, U.S. ATTORNEY'S OFFICE,
LOS ANGELES, AND PUBLIC INTEGRITY SECTION (PIS), DEPARTMENT OF

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JUSTICE (DOJ), AND MEMORANDUM OF EDWARD S. G. DENNIS, JR., ASSISTANT ATTORNEY GENERAL (AAG), DOJ TO DIRECTOR, FBI, DATED NOVEMBER 7, 1989, RE CAPTIONED MATTER.

PURSUANT TO REFERENCED MEETING AND COMMUNICATION OF AAG/DOJ, PHOENIX, IS REQUESTED TO INITIATE A PRELIMINARY INQUIRY INTO CAPTIONED MATTER.

REFERENCED COMMUNICATION, COPIES OF WHICH WILL BE SENT TO RECEIVING OFFICES UNDER SEPARATE COVER, IS A REQUEST OF THE PIS, DOJ, FOR THE ASSISTANCE OF THE FBI TO CONDUCT AN INVESTIGATION INTO ALLEGATIONS CONCERNING CAPTIONED U.S. SENATORS. THE ALLEGATIONS ARISE OUT OF THE ACTIVITIES OF CHARLES H. KEATING, JR., A PRINCIPAL IN THE FAILED LINCOLN S & L ASSOCIATION OF CALIFORNIA. ALLEGEDLY, KEATING, KEATING AND ASSOCIATES, AND ENTITIES CONTROLLED BY KEATING MADE CONTRIBUTIONS TO THE SENATORS' CAMPAIGNS AND/OR OTHER ORGANIZATIONS UNDER THE CONTROL OF THE SENATORS. SUBSEQUENTLY, THE SENATORS SOUGHT TO INTERVENE WITH THE FEDERAL HOME LOAN BANK BOARD (FHLBB) ON BEHALF OF LINCOLN S & L, WHICH WAS BEING INVESTIGATED BY THE BOARD.

DURING REFERENCED MEETING, IT WAS CONCLUDED THAT A PRELIMINARY INQUIRY WAS IN ORDER TO DETERMINE WHETHER THE

PAGE THREE DE RUEHFB 0136 UNCLAS

SENATORS MAY HAVE BEEN IN VIOLATION OF TITLE 18, U.S. CODE, SECTIONS 201 (BRIBERY), 371 (CONSPIRACY), 1951 (HOBBS ACT), AND/OR 1505 (OBSTRUCTION OF PROCEEDINGS BEFORE AN AGENCY), AS IT RELATES TO THEIR INTERVENTION ON BEHALF OF LINCOLN S & L WITH THE FHLBB.

INVESTIGATION UNDER THE PI STATUS, AS ESTABLISHED DURING REFERENCED MEETING WAS LIMITED TO INTERVIEWS TO CORROBORATE STATEMENTS MADE BY [REDACTED] FHLBB, RELATING TO HIS MEETINGS WITH THE SENATORS AND THE SUBSEQUENT MEETING ESTABLISHED BY [REDACTED] FOR THE SENATORS WITH THE REGULATORS CONDUCTING THE EXAMINATION OF LINCOLN S & L.

FBIHQ SHOULD BE EXPEDITIOUSLY ADVISED OF THE RESULTS OF INTERVIEWS CONDUCTED IN CAPTIONED MATTER. FBIHQ SHOULD BE ADVISED PRIOR TO CONDUCTING ANY LEADS AND/OR INTERVIEWS OUTSIDE THE PARAMETERS OF CORROBORATING [REDACTED] STATEMENT.

INTERVIEWS OF CONGRESSMEN, CONGRESSIONAL STAFFERS, FORMER OR CURRENT, AND/OR MEMBERS OF THE MEDIA WILL REQUIRE PRIOR FBIHQ APPROVAL AND WILL NOT BE AUTHORIZED UNDER THE PI STATUS UNLESS DEEMED TO BE ABSOLUTELY ESSENTIAL.

PHOENIX SHOULD SUBMIT WITHIN 30 DAYS AN FD-761 (PUBLIC

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DISSEMINATION.

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Transmit attached by Facsimile

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- ☐ Immediate
☒ Priority
☐ Routine

CLASSIFICATION:

- ☐ TOP SECRET
☐ SECRET
☐ CONFIDENTIAL
☐ UNCLAS E F T O
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To: SANTA ANA RA

From: LOS ANGELES FBI

Subject: ALLEGATIONS CONCERNING
 U.S. SENATORS ALAN CRANSTON,
 ET AL
 CSLPD - LEGISLATIVE CO: PX

Date 11-13-85

- ☐ Fingerprint Photo ☐ Fingerprint Record ☐ Map ☐ Newspaper clipping ☐ Photograph
☐ Artists Conception ☒ Teletype ☐ Other _____

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TO FBI PHOENIX (58C-PX-NEW)/PRIORITY/

FBI LOS ANGELES/PRIORITY/

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SUBJECT: ALLEGATIONS CONCERNING U.S. SENATORS ALAN CRANSTON,
DENNIS DECONCINI, JOHN GLENN, JOHN MCQAIN, DONALD RIEGLE,
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PUBLIC OFFICIALS-LEGISLATIVE; OO: PHOENIX; OO: LOS ANGELES
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FEDERAL BUREAU OF INVESTIGATION

Date of transcription 11/30/89

[redacted] CHASE FEDERAL BANK in Miami, Florida, telephone [redacted] was advised as to the identity of the interviewing agents and of the Assistant States Attorney. Present during the interview were Special Agents [redacted]

[redacted] and Assistant United States Attorney (AUSA) [redacted] was advised as to the purpose of the interview at which time he advised as follows:

[redacted] advised his date of birth is [redacted] and he was born in Modesto, California. [redacted] Social Security account number is [redacted] current address is [redacted] Key Biscayne, Florida, 33149.

[redacted] confirmed the fact that from [redacted] until [redacted] he was [redacted] FEDERAL HOME LOAN BANK BOARD (FHLBB) located in Washington D.C. The FHLBB located in Washington D.C. has the responsibilities of overseeing the 12 FEDERAL HOME LOAN BANKS (FHLB) located throughout the United States. The FHLB's regulate all savings and loan institutions who are federally insured under the FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION (FSLIC). As [redacted] FHLBB, [redacted] large staff who worked directly with the various FHLB's. [redacted] staff would approve examinations to take place by the various FHLB's however the details and scope of the examination were left to the discretion of the regulators on site at the FHLB. [redacted] staff would ultimately approve or disapprove if a particular institution was to be taken over by the federal government.

[redacted] confirmed the fact [redacted] staff were well aware of an examination which began in 1986 by the San Francisco FHLBB. This particular examination involved LINCOLN SAVINGS AND LOAN ASSOCIATION located in Irvine, California. Southern California as well as Northern California examinations were handled out of the San Francisco office of the FHLB. [redacted] further confirmed the fact he is aware of the parent company which owns LINCOLN SAVINGS AND LOAN, AMERICAN CONTINENTAL CORPORATION (ACC) out of Phoenix, Arizona. In addition he is well aware of the Chairman of the Board for ACC CHARLES KEATING, JR.

[redacted] became somewhat acquainted with LINCOLN SAVINGS AND LOAN and ACC prior to the examination of 1986 due to the fact LINCOLN and ACC challenged various regulations that the FHLBB in

Investigation on 11/6/89 at Washington D.C. File # 58C-PX-41605 *IXI*

by SA [redacted] SA [redacted] SA [redacted] AUSA [redacted]
SA [redacted] GKM/cpt Date dictated 11/21/89

58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 11/6/89, Page 2

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Washington D.C. was attempting to institute. These regulations would directly affect LINCOLN SAVINGS AND LOAN. The FHLBB and the San Francisco FHLB had jurisdiction over LINCOLN SAVINGS AND LOAN (LSL) even though it was a California chartered savings and loan. LSL was not only a state chartered savings and loan it was federally insured by the FSLIC. The fact that it was federally insured put it under the jurisdiction of the FHLBB.

By way of background, [REDACTED] advised in 1980 the NOLAN bill was passed in the state of California. This bill permitted state chartered savings and loans in California to make an unlimited amount of direct investments. This basically was contrary to the original purpose of a savings and loan which was to provide home loans for its various depositors. The NOLAN bill allowed the savings and loans to take any and all money brought in from deposits and invest in risky investments other than the home loan program. This bill allowed the savings and loan to become the owner of an investment rather than just loan money against collateral. This type of bill was not only instituted in California but was instituted in various states throughout the country.

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Immediately after [REDACTED]

[REDACTED] he was concerned about savings and loan institutions who were federally insured being able to solicit brokered deposits into the institution and then invest those deposits in risky investments. [REDACTED] staff sought to limit the direct investments by federally insured institutions to 10% of their gross assets. This regulation would substantially limit the direct investments of LINCOLN SAVINGS AND LOAN and other federally insured state chartered institutions. In addition, [REDACTED] staff attempted to institute other smaller regulations which would force the savings and loans to get back into the business in which they originally intended, that is to make home loans. Home loans were profitable although much less risky investment than a direct investment where the savings and loan became the owner of the investment. The direct investment situation was very profitable for the owners of a institution if the investments they made were good ones and made money. However the down side to the direct investment was primarily to the federal government. If an institution unwisely invested and lost money and their financial position became in jeopardy and they

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58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 11/6/89, Page 3

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were unable to pay off their obligations to their depositors, then the FSLIC insurance would come in and pay off the depositors. This situation was a perfect situation for the owners and principles of the savings and loans because ultimately their major direct investments were risk free to them. If they lost money the federal government would come in and pay off their obligations to their depositors.

[REDACTED] advised during the years [REDACTED] FHLBB numerous attempts were made by CHARLES KEATING and his staff to change the direct investment regulation and discourage the bank board from instituting the regulation. CHARLES KEATING was able to use high powered attorneys, accountants, and his staff to attempt to influence members of the FHLBB to either withdraw or change their regulation. [REDACTED] emphasized the fact that various regulations were being instituted and various policy changes were being made by the FHLBB was due to the objectives and goals of the bank board upon [REDACTED]

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[REDACTED] stated their objectives and goals were to strengthen and protect the FSLIC fund, to update the board's regulations, and to expand and strengthen the board's exam, supervisory, and enforcement operations. It was these goals and objectives that CHARLES KEATING, ACC, and LINCOLN SAVINGS AND LOAN objected to and made various attempts to influence.

In addition to the challenging of the regulation in 1986 LINCOLN SAVINGS was being audited by the FHLB of San Francisco. The audit appeared to indicate LINCOLN SAVINGS AND LOAN was operating under very unsound, risky, and dangerous business procedures and there was a threat that LINCOLN SAVINGS could become insolvent. KEATING was also objecting to the examination and made it very difficult for regulators to do their job and to obtain the necessary documentation during the examination. KEATING attempted to show that due to the policy in regulation changes being made and the fact that they were being audited and it appeared LINCOLN was in a dangerous situation, that the FHLBB had a personal vendetta against KEATING and LINCOLN SAVINGS AND LOAN. [REDACTED] emphatically stated this in fact was untrue. [REDACTED] stated to this date he has never spoken directly with nor has he met CHARLES KEATING, JR.

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58C-PX-41605

Continuation of FD-302 of [redacted], On 11/6/89, Page 4

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[redacted] advised that in the spring of 1987 [redacted] staff were attempting to solicit support from the Senate and House in Washington D.C. for a FSLIC recapitalization bill. It became apparent due to many failures of savings and loan institutions throughout the country the FSLIC insurance fund was quickly being depleted. [redacted] was attempting to get additional funding for the FSLIC insurance fund.

During the latter part of April 1987, [redacted] was meeting with the then Chairman of the Senate Banking Committee Senator DONALD RIEGLE in his office attempting to solicit support for the FSLIC recapitalization bill. At the conclusion of their meeting, RIEGLE pulled him aside and stated there were some other senators who wanted to talk to him about the LINCOLN SAVINGS AND LOAN situation. He advised they were concerned about the situation and that [redacted] would be receiving a telephone call setting up a meeting. [redacted] initially protested to RIEGLE about having a meeting however eventually agreed. [redacted] state of mind at that point was totally focused on the FSLIC recap and agreed to meeting with the senators due to the fact he wanted support from RIEGLE and other senators on the FSLIC recap. [redacted] felt this may be an opportunity to talk with the other senators regarding the FSLIC recap. [redacted] confirmed the fact that on or about April 1, 1987, he did in fact get a message to go to the senate office of Senator DENNIS DECONCINI on April 2, 1987, at 6:00 p.m. The message also stated [redacted] was to come alone without staff. [redacted] does not specifically recall how he obtained this message. He believes [redacted] may have taken the message and relayed it to [redacted] does recall being very surprised and upset about the fact he was requested to go to the meeting alone without staff. It is customary for [redacted] and congressmen in Washington D.C. to have staff members present in any and all meetings. At the time [redacted] received the call to go to DECONCINI's office, he was unaware that there would be four senators there also without staff. [redacted] confirmed the fact that at no time [redacted] or the FHLBB was he ever requested or did he ever meet with a senator without staff people present.

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[redacted] advised he believes he had previously met DENNIS DECONCINI in February or March of 1985 when he [redacted] went to DECONCINI's office to explain to him

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58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 11/6/89, Page 5

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b7C

the "Direct Investment Regulation". At that time, DECONCINI offered no opposition and gave no opinion if he was supporting or challenging the Direct Investment Regulation. He simply asked questions about the regulation.

[REDACTED] advised upon arriving at DECONCINI's office on April 2, 1987, he immediately observed not only DECONCINI but senators JOHN GLENN, ALAN CRANSTON, and JOHN MCCAIN. [REDACTED] recalls having met all of the senators prior to this meeting however did not know any of them very well. [REDACTED] believes he met with CRANSTON in mid 1985 in CRANSTON's office along with the [REDACTED]. He believes the meeting basically involved the problems of the FSLIC and [REDACTED] was attempting to solicit support from CRANSTON. He further believes they talked about the Direct Investment Regulation and other problems and [REDACTED] wanted CRANSTON to be aware of the seriousness of the savings and loan situation. At that meeting in mid 1985, CRANSTON did not say much during the 45 minute long meeting and only asked a few questions about FSLIC and the Direct Investment. CRANSTON gave no indication if he supported or was against the direct investment rule. [REDACTED] recalls CRANSTON had previously been against Brokered Fund Regulation.

[REDACTED] continued regarding the April 2, 1987, meeting the atmosphere was very business like. He recalls they sat down and DENNIS DECONCINI immediately took the lead and began talking. The seating arrangement was such that [REDACTED] was looking directly at DECONCINI and the other three senators were to DECONCINI's left and [REDACTED] right off to the side. As mentioned, DECONCINI took the lead and appeared to speak on behalf of all senators present. Senator MCCAIN initially made the statement that he did not want to do or say anything improper. [REDACTED] at that time told them that as United States senators given their responsibility for oversight of government agencies such as the bank board it was not improper to ask questions.

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DECONCINI then began his opening statement stating they were there on behalf of their "friend" at LINCOLN SAVINGS AND LOAN and they were concerned that a direct investment regulation the bank board had adopted might be unconstitutional. He continued stating "we" meaning the senators would not want to have a regulation on the books that was unconstitutional.

58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 11/6/89, Page 6

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DECONCINI seemed to know very well the situation with LINCOLN SAVINGS AND LOAN. DECONCINI continually used the terms "we" and "us" when referring to the senators. The other senators seemed to go along with everything DECONCINI was saying and there was never an appearance of dissention among the senators. There was no expressions or hints of any differences among the senators.

DECONCINI requested [REDACTED] to withdraw the direct investment regulation until it could be determined whether it was legal because, again it was important to them and to their "friend" at LINCOLN that the regulation be legal. [REDACTED] advised at this point he felt a "quid pro quo" was offered in that DECONCINI stated if [REDACTED] would withdraw the regulation he stated "we" would get there friend to make more home loans. DECONCINI advised [REDACTED] that they understood that [REDACTED] wanted the savings and loan institutions to make home loans and that they concurred with that opinion. [REDACTED] emphasized that it sounded like a quid pro quo and felt that it was a quid pro quo at the time the above request was made. At that time [REDACTED] advised Senator DECONCINI that he could not and would not withdraw the regulation and explained that if he withdrew the regulation there would be no basis for the lawsuit to continue to determine if the direct investment regulation was in fact constitutional. [REDACTED] then went through with the senators in a deliberate manner how and why the FHLBB had begun the process of instituting the direct investment regulation in 1984. He further explained to them why they felt it was necessary to press for constraints on the use of direct investments. Again [REDACTED] emphasized he told Senator DECONCINI he would not withdraw the direct investment regulation.

[REDACTED] continued stating the senators spent considerable time complaining about the bank board's appraisal standards. DECONCINI explained they felt the appraisal standards were unreasonable. [REDACTED] explained to the senators he had no control or information regarding the appraisal standards being adopted by the San Francisco regulators.

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58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 11/6/89, Page 7

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In addition, the senators were concerned and wanted to discuss the reasons why the examination of LINCOLN had "dragged on" for such a long time. [REDACTED] advised them he was not aware as to the reason. [REDACTED] stated he told the senators that in the fall of 1986 he had received a report from the principal supervisory agent in San Francisco which said that the reason the examination was going on longer than normal was because LINCOLN was not being cooperative with the examiners. He further explained to the senators that he had full confidence in the regulators in San Francisco and that there had to be good reason for the length of the examination or it would have been finished.

At this time Senator GLENN seemed to become upset that the chief regulator of the FHLBB was unable to answer their questions about the examination and about the condition of LINCOLN SAVINGS AND LOAN. At this time [REDACTED] went into great detail explaining the responsibilities of the bank board for regulating 3,000 thrift institutions throughout the country. He further went into an explanation as to how he recruited [REDACTED] and had extreme confidence in his ability to run an examination. GLENN and the other senators questioned why [REDACTED] did not have more details regarding the examination of LINCOLN SAVINGS AND LOAN. [REDACTED] advised them it would be "unseemly" to know so much about LINCOLN in light of the alleged "feud" and vendetta he and KEATING were supposed to be having.

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[REDACTED] emphasized at this point that no such feud or vendetta actually ever existed. He believes it was KEATING's strategy to convince the senators and other influential people that the FHLBB and [REDACTED] specifically had a vendetta against KEATING and LINCOLN SAVINGS AND LOAN. [REDACTED] stated this was emphatically not true and as previously mentioned to this date he has never spoken with or met CHARLES KEATING, JR. [REDACTED] believes that KEATING fully convinced the senators and others the bank board was being unreasonable and had a vendetta against LINCOLN SAVINGS AND LOAN and for this reason and others they decided to intervene in the LINCOLN SAVINGS AND LOAN examination.

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As previously mentioned [REDACTED] advised all of the senators present at the meeting appeared to be "lobbying" on behalf of CHARLES KEATING and LINCOLN SAVINGS AND LOAN. It appeared to be unanimous that all the senators were unhappy about the length of

58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 11/6/89, Page 8

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the examination. [REDACTED] spoke to them about his "team" in San Francisco and informed them as to their qualifications. [REDACTED] continued telling the senators there was no question they were confident to perform a proper examination. The senators made it very clear they were pushing for the exam to be immediately terminated.

[REDACTED] advised the senators seemed to be very frustrated that [REDACTED] could not answer any of their specific questions regarding the LINCOLN examination. The meeting basically concluded when [REDACTED] suggested that in order to have their questions answered the senators would need to meet with the San Francisco regulators. At that point, DECONCINI stated they would consider that option and that he would get back to [REDACTED] if they wanted to meet with the regulators. The meeting then concluded.

[REDACTED] advised that to the best of his recollection DECONCINI then called him a few days later at home from Arizona. DECONCINI stated they, the Senators wanted to meet with the San Francisco regulators again at 6:00 p.m. in his office on April 9, 1987. [REDACTED] advised he then notified [REDACTED] and the other regulators in San Francisco as to the requested meeting with the senators on April 9, 1987. In addition, [REDACTED] believes he met with [REDACTED] on April 9, 1987, prior to the meeting with the senators and requested [REDACTED] to prepare a full report at the conclusion of their meeting with the senators. In addition, he requested [REDACTED] to come back to the FHLBB office and brief [REDACTED]

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[REDACTED] confirmed the meeting with the regulators and the senators did in fact take place at 6:00 p.m. on April 9, 1987, in the office of Senator DENNIS DECONCINI. Upon returning, [REDACTED] basically briefed [REDACTED] as to what took place in the meeting and [REDACTED] was very impressed with his recall and the notes he had taken. He instructed [REDACTED] to prepare a detailed memo and to reconstruct the conversation which took place with the senators.

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[REDACTED] confirmed the fact that he felt great pressure from the senators due to the above meetings and the fact that various issues of funding for the FHLBB were before the senators. In addition, the senators were members of the Oversight Committee overseeing the FHLBB. The FHLBB is accountable to the Oversight Committee. [REDACTED] felt the senators could provide problems for

58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 11/6/89, Page 9*

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critical legislation, in particular [REDACTED] was concerned about the FSLIC recapitalization bill which he was trying to solicit support from various legislators.

[REDACTED] advised he did not take any official action after the previously mentioned meetings. He stated his state of mind during this time was one of focusing on the FSLIC recapitalization bill. He believes he may have taken some official action or would have done things differently had he not been trying to get support and passage of the FSLIC recapitalization bill.

[REDACTED] further advised prior to [REDACTED] the FHLBB he briefed [REDACTED] as to the LINCOLN SAVINGS AND LOAN situation. The briefing took place during the transition period just prior to June of 1987. Since [REDACTED] had purposely not been informed as to details, the only thing he could tell [REDACTED] about the investigation was that there was a recommendation from the San Francisco regulators that the savings and loan be taken over and that recommendation would appear on [REDACTED] desk at the time he [REDACTED] advised there was basically no time prior to [REDACTED] arrange for the takeover of LINCOLN. In addition, he felt it would appear somewhat improper and may validate the "vendetta" scenario if the last official action he were to take prior to leaving office was to take over LINCOLN SAVINGS AND LOAN. He felt with [REDACTED] coming in and reviewing the recommendation that it would be best to have an independent decision [REDACTED]

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FM FBI PHOENIX (58C-PX-41605) (P)

TO FBI CINCINNATI/ROUTINE/

FBI CLEVELAND/ROUTINE/

FBI DETROIT/ROUTINE/

FBI LOS ANGELES/ROUTINE/

BT

UNCLAS

CITE: //3630//

SUBJECT: UNITED STATES SENATORS ALLAN CRANSTON, DENNIS
DE CONCINI, JOHN GLENN, JOHN MC CAIN, DONALD RIEGLE; CHARLES H.
KEATING, DBA LINCOLN SAVINGS AND LOAN ASSOCIATION (LSL) OF
CALIFORNIA AND AMERICAN CONTINENTAL CORPORATION (ACC), PHOENIX,
ARIZONA; CORRUPTION OF FEDERAL OFFICIALS - LEGISLATIVE; OO:
PHOENIX, OO: LOS ANGELES.

RE FBIHQ TEL TO PHOENIX AND LOS ANGELES, NOVEMBER 9, 1989.

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FOR INFORMATION CINCINNATI, CLEVELAND, AND DETROIT DIVISIONS. A JOINT PHOENIX-LOS ANGELES INVESTIGATION HAS BEEN INITIATED ON NOVEMBER 8, 1989, AS A PRELIMINARY INVESTIGATION IN REGARD TO CAPTIONED SENATORS IN ORDER TO DETERMINE WHETHER THE SENATORS MAY HAVE BEEN IN VIOLATION OF TITLE 18, USC, SECTIONS 201 (BRIBERY), 371 (CONSPIRACY), 1551 (HOBBS ACT), AND/OR 1505 (OBSTRUCTION). THE ALLEGATIONS ARISE OUT OF THE ACTIVITIES OF CHARLES H. KEATING, JR., CHAIRMAN OF ACC, THE PARENT OF LSL, A FAILED THRIFT THAT MAY HAVE LOSSES UP TO \$2.5 BILLION. KEATING MADE SUBSTANTIAL CONTRIBUTIONS TO THE SENATORS' CAMPAIGNS AND/OR OTHER ORGANIZATIONS UNDER THE CONTROL OF THE SENATORS. SUBSEQUENTLY, THE SENATORS SOUGHT TO INTERVENE WITH THE FEDERAL HOME LOAN BANK BOARD ON BEHALF OF KEATING.

CINCINNATI, CLEVELAND, AND DETROIT DIVISIONS ARE ADVISED SUBSEQUENT LEADS AND INVESTIGATION MAY ARISE WITHIN THEIR RESPECTIVE DIVISIONS AS A RESULT OF THIS PRELIMINARY OR RESULTING FULL INVESTIGATION.

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FM FBI PHOENIX (58C-PX-41605) (P)

TO FBI CINCINNATI/ROUTINE/

FBI CLEVELAND/ROUTINE/

FBI DETROIT/ROUTINE/

FBI LOS ANGELES/ROUTINE/

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UNCLAS

CITE: //3630//

SUBJECT: UNITED STATES SENATORS ALLAN CRANSTON, DENNIS
DE CONCINI, JOHN GLENN, JOHN MC CAIN, DONALD RIEGLE; CHARLES H.
KEATING, DBA LINCOLN SAVINGS AND LOAN ASSOCIATION (LSL) OF
CALIFORNIA AND AMERICAN CONTINENTAL CORPORATION (ACC), PHOENIX,
ARIZONA; CORRUPTION OF FEDERAL OFFICIALS - LEGISLATIVE; OO:
PHOENIX, OO: LOS ANGELES.

RE FBIHQ TEL TO PHOENIX AND LOS ANGELES, NOVEMBER 9, 1989.

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11/13/89

Director, FBI

SACs, Phoenix (58C-PX-NEW)

CHANGED:

ALLEGATIONS CONCERNING U.S. SENATORS ALAN CRANSTON, DENNIS DECONCINI, JOHN GLEN, JOHN MCCAIN, DONALD RIEGLE; CHARLES H. KEATING, DBA LINCOLN SAVINGS AND LOAN (S&L) ASSOCIATION OF CALIFORNIA AND AMERICAN CONTINENTAL CORPORATION, PHOENIX, ARIZONA; CORRUPTION OF FEDERAL PUBLIC OFFICIALS - LEGISLATIVE; OO: PHOENIX; OO: LOS ANGELES

Title marked changed to indicate actual character of case as "Corruption of Federal Public Officials". Title previously carried character as "Corruption of State and Local Public Officials."

Re: Buteltype to receiving offices dated 11/9/89, and Butelcall of SSA [redacted] to SSA [redacted] Phoenix Division and SSA [redacted] Santa Anna Resident Agency, on 11/10/89.

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Enclosed for receiving offices are two copies each of a Memorandum dated 11/7/89, from Edward S. G. Dennis, Jr., Assistant Attorney General, Department of Justice to the Director, FBI, re captioned matter. Enclosed for Phoenix are the Financial Disclosure Statements for captioned U. S. Senators, and the testimony and exhibits of individuals appearing before the Committee on Banking, Finance and Urban Affairs, U. S. House of Representatives.

During re telcall to SSA [redacted] Phoenix Division was requested to xerox enclosures sent overnight express and make available for Los Angeles Division.

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- 3 - Phoenix (Enc. 2)
- 2 - Los Angeles (Enc. 2)

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ASAC [redacted]

SARA

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FBI

TRANSMIT VIA:

☒ Teletype
☒ Facsimile
☐ _____

PRECEDENCE:

☐ Immediate
☐ Priority
☐ Routine

CLASSIFICATION:

☐ TOP SECRET
☐ SECRET
☐ CONFIDENTIAL
☐ UNCLAS E F T O
☒ UNCLAS

Date 11/14/89

1 FM SAC, LOS ANGELES (58C-PX-41605) (WCC-4/SARA) (P)

2 TO DIRECTOR, FBI

3 FBI, PHOENIX

4 BT

5 UNCLAS

6 SUBJECT: ALLEGATIONS CONCERNING U.S. SENATORS ALAN CRANSTON,
 7 DENNIS D. DECONCINI, JOHN GLENN, JOHN MCCAIN, DONALD RIEGLE,
 8 CHARLES H. KEATING, JR., DBA LINCOLN SAVINGS AND LOAN (LSL)
 9 ASSOCIATION OF CALIFORNIA AND AMERICAN CONTINENTAL CORPORATION
 10 (ACC), PHOENIX, ARIZONA; CORRUPTION OF FEDERAL PUBLIC OFFICIALS -
 11 LEGISLATIVE; OO: PHOENIX/LOS ANGELES.

12 RE FBIHQ TELETYPE TO PHOENIX AND LOS ANGELES DATED 11/9/89
 13 AND RE MEETING AT FBIHQ ON 11/8/89 WITH REPRESENTATIVES FROM THE
 14 FBI, U.S. ATTORNEY'S OFFICE, LOS ANGELES, AND PUBLIC INTEGRITY
 15 SECTION (PIS), DEPARTMENT OF JUSTICE.

16 THIS MATTER IS IN A PRELIMINARY INQUIRY STATUS.

17 AS MENTIONED IN THE REFERENCED TELETYPE AND REFERENCED
 18 MEETING AT FBIHQ, INVESTIGATION IN THIS MATTER HAS CONSISTED OF A
 19 LENGTHY INTERVIEW OF [REDACTED]

20 FEDERAL HOME LOAN BANK BOARD IN WASHINGTON D.C. AS NOTED IN

21 *W* GKM/cpt
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Transmitted [REDACTED]

SARA
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PAGE TWO (58C-PX-41605)

PREVIOUS COMMUNICATIONS, [] MET WITH VARIOUS UNITED STATES SENATORS ON 4/2/87 IN CONNECTION WITH AN EXAMINATION OF LINCOLN SAVINGS AND LOAN ASSOCIATION OF IRVINE, CALIFORNIA. IN ADDITION TO THE ABOVE, ON 11/7/89 [] TESTIFIED BEFORE THE HOUSE BANKING COMMITTEE IN WASHINGTON D.C. ALSO REGARDING LINCOLN SAVINGS AND LOAN. ON 11/6/89, [] WAS INTERVIEWED AND CONFIRMED THE FACT HE DID MEET WITH SENATORS ALAN CRANSTON, DENNIS DECONCINI, JOHN GLENN AND JOHN MCCAIN ON 4/2/87. [] STATED HE WAS INSTRUCTED TO APPEAR AT THE OFFICE OF DECONCINI AT 6:00 ON 4/2/87 AND TO APPEAR WITHOUT STAFF MEMBERS. [] CONFIRMED THE FACT THE MEETING TOOK PLACE IN DECONCINI'S OFFICE AND DECONCINI PRIMARILY DID MOST OF THE TALKING AND QUESTIONING. [] CONFIRMED INITIALLY DECONCINI WHO WAS APPEARING TO SPEAK ON THE OTHERS BEHALF REQUESTED [] TO WITHDRAW THE DIRECT INVESTMENT REGULATION WHICH HE HAD RECENTLY INSTITUTED. IN RETURN FOR THE WITHDRAWAL OF THE REGULATION, DECONCINI TOLD [] LINCOLN SAVINGS AND LOAN WAS PREPARED TO IMPROVE AND ENHANCE THEIR HOME LOAN PROGRAM. [] WAS OFFENDED BY THIS PROPOSAL AND FELT IT TO BE EXTREMELY IMPROPER. IN ADDITION, [] CONFIRMED THE SENATORS QUESTIONED HIM ABOUT THE APPRAISAL PROCEDURES BEING USED BY THE SAN FRANCISCO REGULATORS IN THEIR EXAMINATION OF LINCOLN SAVINGS AND LOAN. IN ADDITION, THE SENATORS QUESTIONED [] AS TO THE LENGTH OF THE EXAMINATION AND INQUIRED AS TO WHY THE EXAMINATION HAD TAKEN AS LONG AS IT HAD. [] ADVISED ALL OF THE SENATORS HE WAS NOT PRIVY TO DETAILED INFORMATION REGARDING THE EXAMINATION

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PAGE THREE (58C-PX-41605)

AND BASICALLY LEFT THOSE DETAILS AND THE EXAMINATION TO THE STAFF IN SAN FRANCISCO. [] ADVISED THE SENATORS IN ORDER TO OBTAIN DETAILED INFORMATION AND REASONING AS TO THE LENGTH OF THE EXAMINATION THEY WOULD NEED TO CONTACT THE REGULATORS IN SAN FRANCISCO. THE MEETING BASICALLY CONCLUDED AT THAT POINT WHEREBY DECONCINI TOLD [] THEY MAY DECIDE TO CONTACT THE REGULATORS.

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[] THEN IMMEDIATELY RETURNED TO HIS OFFICE AND BRIEFED [] [] STAFF MEMBERS AS TO EXACTLY WHAT OCCURRED IN THE MEETING WITH THE SENATORS. THE THREE INDIVIDUALS WHO WERE BRIEFED BY [] WERE [] THE FEDERAL HOME LOAN BANK BOARD, [] THE FEDERAL HOME LOAN BANK BOARD [] WHO WAS

[]

[] FURTHER CONFIRMED THAT THE FOLLOWING WEEK ON TUESDAY, 4/9/87, THE ABOVE MENTIONED SENATORS ALONG WITH SENATOR DONALD RIEGLE DID IN FACT MEET WITH THE SAN FRANCISCO REGULATORS. [] INSTRUCTED [] TO TAKE NOTES REGARDING THAT MEETING.

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[] DID IN FACT TAKE VERY DETAILED NOTES OF THE MEETING AND AFTER WHICH TRANSFERRED IT TO A MEMO AND PRESENTED IT TO [] [] EMPHASIZED DURING THE INTERVIEW ON 11/6/89, THAT THE APPROACH AND THE SUBSEQUENT MEETING WHICH TOOK PLACE BETWEEN HE AND THE FOUR SENATORS ON 4/2/87 WAS EXTREMELY OFFENSIVE AND IMPROPER. [] ADVISED HE WAS VERY UPSET AT THE CONCLUSION OF THE MEETING AND ADVISED HIS STAFF AS SUCH. [] FELT THE SENATORS WERE OUT OF LINE IN ATTEMPTING TO GET INVOLVED WITH AND

PAGE FOUR (58C-PX-41605)

ASK HIM TO CHANGE A FEDERAL HOME LOAN BANK REGULATION WHICH HAD BEEN INSTITUTED. [] FELT IT WAS TOTALLY IMPROPER NOT ONLY FOR THEM TO ASK FOR THE WITHDRAWAL BUT TO ALSO PROVIDE THE "QUID PRO QUO" STATING THAT ACC AND LINCOLN WERE PREPARED TO ENHANCE THEIR HOME LOAN PROGRAM.

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IN ADDITION TO THE ABOVE ON 11/8 AND 11/9/89, TWO OF THE THREE STAFF MEMBERS WHO WERE BRIEFED BY [] REGARDING THE 4/2/87 MEETING WERE ALSO INTERVIEWED IN WASHINGTON D.C. ON 11/8/89,

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[] THE FEDERAL HOME LOAN BANK BOARD, WAS INTERVIEWED. [] CONFIRMED THE FACT [] ASKED SHE AND THE OTHER STAFF MEMBERS TO WAIT AT THE FEDERAL HOME LOAN BANK BOARD OFFICE UNTIL HE RETURNED FROM THE 4/2/87 MEETING. [] RECALLS PRIOR TO GOING TO THE MEETING [] APPEARED TO BE DISTRACTED AND IRRITATED ABOUT THE FACT HE WAS REQUESTED TO ATTEND THE MEETING WITHOUT ANY STAFF MEMBERS.

[] CONFIRMED THIS IS HIGHLY UNUSUAL IN THAT VIRTUALLY ALL MEETINGS [] ATTENDED DURING THE TIME [] FEDERAL HOME LOAN BANK BOARD HE WOULD TAKE A STAFF MEMBER WITH HIM. [] WAS NOT INVOLVED IN NOR DID SHE HAVE KNOWLEDGE OF THE TELEPHONE CALL WHICH [] RECEIVED INDICATING HE SHOULD ATTEND THIS MEETING WITHOUT HIS STAFF MEMBERS. [] VAGUELY RECALLS THAT [] MAY HAVE COME OUT OF HIS OFFICE THE SAME DAY THE MEETING WAS TO TAKE PLACE AND ANNOUNCE TO HER THAT HE HAD BEEN REQUESTED TO GO TO THE MEETING WITHOUT [] STAFF AND WAS VERY IRRITATED. [] EMPHASIZED THE FACT DURING THIS PERIOD

PAGE FIVE (58C-PX-41605)

OF TIME SHE AND [] WERE VERY INVOLVED IN THE FSLIC RECAPITALIZATION BILL WHICH THEY WERE ATTEMPTING TO GET APPROVED TO REFURBISH THE FSLIC INSURANCE FUND.

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[] DOES NOT SPECIFICALLY RECALL THE TIME THAT [] RETURNED FROM THE MEETING WITH THE SENATORS HOWEVER SHE DOES RECALL HE WAS VERY UPSET. HE IMMEDIATELY SAT DOWN WITH

[] AND BRIEFED THEM AS TO WHAT WENT ON IN THE MEETING. [] ADDED THAT THIS WAS A TRADITIONAL HABIT OF [] UPON RETURNING FROM MOST IF NOT ALL OF THE MEETINGS HE HAD [] THE FEDERAL HOME LOAN BANK BOARD. THAT IS HE WOULD IMMEDIATELY [] SENIOR STAFF DOWN AND ADVISE THEM AS TO WHAT OCCURRED IN THE MEETINGS. []

DOES NOT BELIEVE [] WROTE ANY MEMOS OR NOTES REGARDING THE MEETING. [] STAFF TO TELL THEM WHAT OCCURRED. [] BELIEVES THIS PARTICULAR MEETING WAS TOTALLY OUT OF THE NORM AND CAUGHT [] OFF BALANCE THEREFORE THE ONLY TRADITIONAL ACTION HE TOOK WAS TO BRIEF THE STAFF UPON RETURNING.

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[] RECALLS DUE TO THE FACT IT WAS AROUND 7:00 TO 7:30 P.M. IN THE EVENING AND THE WEST COAST FEDERAL HOME LOAN BANK BOARDS WERE STILL OPEN SHE STILL CONTINUED TO WORK DURING THE BRIEFING MEETING. SHE RECALLS COMING IN AND OUT OF THE MEETING AS THEY WERE BEING TOLD BY [] AS TO WHAT OCCURRED. [] SPECIFICALLY RECALLS [] INITIALLY MENTIONING HE WAS ASKED BY DECONCINI AND THE OTHER SENATORS TO WITHDRAW THE DIRECT INVESTMENT REGULATION. SHE ADDED HE WAS VERY UPSET ABOUT THIS

PAGE SIX (58C-PX-41605)

REQUEST. [] BELIEVES THAT SHE MAY HAVE BEEN OUT OF THE ROOM DURING THE TIME [] MENTIONED THE "QUID PRO QUO" IN THAT IN RETURN FOR THE WITHDRAWAL OF THE REGULATION LINCOLN SAVINGS AND LOAN WOULD ENHANCE THEIR HOME LOAN PROGRAM. SHE DID NOT HEAR THE SECOND HALF OF THE REQUEST, THAT IS THAT THEY WOULD ENHANCE THE HOME LOAN PROGRAM. [] BELIEVES HAD SHE HEARD IT SHE DEFINITELY WOULD HAVE REMEMBERED IT BECAUSE IT WAS A MAJOR ITEM TO HER THAT HOME LOAN PROGRAMS BE THE PRIMARY BUSINESS OF A SAVINGS AND LOAN. IN ADDITION, [] STATED [] MENTIONED THE SENATORS QUESTIONING THE APPRAISAL PROCEDURES USED BY THE REGULATORS IN SAN FRANCISCO. [] FURTHER RECALLS [] MENTIONING THE SENATORS QUESTIONED THE LENGTH OF THE EXAM AND THAT HE BASICALLY REFERRED THEM TO THE SAN FRANCISCO REGULATORS. [] FURTHER RECALLS A STATEMENT MADE BY [] THAT "CHARLIE KEATING MUST HAVE BEEN INVOLVED BECAUSE THE SENATORS KNEW SO MUCH ABOUT LINCOLN SAVINGS AND LOAN".

IN ADDITION TO THE ABOVE, ON 11/9/89, [] [] WAS INTERVIEWED REGARDING HER RECOLLECTION OF THE BRIEFING SESSION ON 4/2/87. [] CONFIRMED THE FACT SHE WAS PRESENT AT THE BRIEFING WHEN [] RETURNED FROM THE MEETING WITH THE FOUR SENATORS. [] SPECIFICALLY RECALLS [] COMING BACK VERY UPSET AND BASICALLY STATING "YOU GUYS WOULDN'T BELIEVE WHAT THEY ASKED ME, THEY ASKED ME TO WITHDRAW THE DIRECT INVESTMENT REGULATION AND IN RETURN LINCOLN SAVINGS AND LOAN WOULD IMPROVE THEIR HOME LOAN PROGRAM". [] FURTHER

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PAGE SEVEN (58C-LA-41605)

BELIEVES [] MENTIONED THE COMPLAINT ABOUT THE APPRAISAL PROCEDURES USED BY THE REGULATORS AND ALSO INQUIRED AS TO THE LENGTH OF THE EXAMINATION. [] DOES NOT SPECIFICALLY RECALL DETAILS AND DID NOT TAKE NOTES OF THE BRIEFING. [] CONFIRMED IT WAS CUSTOMARY FOR [] TO TAKE A STAFF MEMBER ON THESE TYPES OF MEETINGS AND TO BRIEF [] STAFF UPON RETURNING FROM THESE TYPES OF MEETINGS. [] RECALLS [] BEING UPSET PRIOR TO GOING TO THE MEETING DUE TO THE FACT HE WAS UNABLE TO TAKE A STAFF MEMBER. SHE RECALLS HAVING A CONVERSATION WITH HIM PRIOR WHERE SHE BASICALLY ASKED HIM "WELL, WHY ARE YOU NOT TAKING ME TO THE MEETING WITH THE SENATORS". AT WHICH TIME [] INFORMED HER HE WAS INSTRUCTED NOT TO TAKE ANY STAFF. [] ADVISED THIS IS HIGHLY UNUSUAL BECAUSE [] AND IT WOULD BE APPROPRIATE FOR HER TO HAVE GONE TO THE MEETING.

IN ADDITION TO THE ABOVE, []

[] DURING THE PERIOD OF THE ABOVE MEETING, WAS INTERVIEWED IN WASHINGTON D.C. [] CONFIRMED THE FACT SHE WAS AWARE [] WAS ATTENDING A MEETING WITH THE SENATORS AND WAS ATTENDING THE MEETING WITHOUT STAFF. [] DOES NOT SPECIFICALLY RECALL RECEIVING ANY TELEPHONE CALL PRIOR TO THAT MEETING WHEREBY SHE WAS INSTRUCTED TO GIVE A MESSAGE TO [] ABOUT THE MEETING WITH THE SENATORS. ALTHOUGH [] WAS AWARE [] WAS ATTENDING THE MEETING ALONE, SHE DOES NOT RECALL ANY INSTRUCTIONS GIVEN TO HER TO BE GIVEN TO HIM THAT HE IS TO ATTEND THE MEETING WITHOUT STAFF. [] BELIEVES WHAT MAY HAVE HAPPENED WAS SHE WOULD

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PAGE EIGHT (58C-PX-41605)

RECEIVE A TELEPHONE CALL AND SIMPLY TRANSFER IT INTO [] WHO THEN TOOK THE MESSAGE. [] BELIEVES HAD SHE TAKEN A MESSAGE OF THAT NATURE SHE WOULD HAVE REMEMBERED THE CALL.

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INVESTIGATION IN THIS MATTER WILL CONTINUE WITH THE OBJECTIVE BASICALLY AT THIS POINT TO CONFIRM THE INTERVIEW AND SUBSEQUENT HOUSE BANKING COMMITTEE TESTIMONY OF [] AS MENTIONED IN THE INTERVIEW AND THE HEARINGS, THE FOUR SENATORS ALONG WITH SENATOR DONALD RIEGLE SUBSEQUENTLY MET WITH FOUR OF THE INDIVIDUALS PERSONALLY INVOLVED WITH THE LINCOLN SAVINGS AND LOAN EXAMINATION BACK IN APRIL OF 1987. THE MEETING TOOK PLACE ON 4/9/87 AT THE REQUEST OF THE U.S. SENATORS. IN ATTENDANCE AT THAT MEETING WAS []

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[] IT IS NECESSARY TO INTERVIEW THOSE INDIVIDUALS AS SOON AS POSSIBLE. IN ADDITION, [] NEEDS TO BE INTERVIEWED REGARDING THE BRIEFING SESSION WHICH TOOK PLACE ON 4/2/87 AFTER THE MEETING WITH [] AND THE FOUR SENATORS. [] WAS ONE OF THE INDIVIDUALS ON HIS SENIOR STAFF WHO WAS BRIEFED AS TO WHAT OCCURRED IN THE MEETING. [] WAS INSTRUCTED TO TAKE DETAILED NOTES AT THE SECOND MEETING WITH THE FIVE U.S. SENATORS. [] DID IN FACT TAKE VERY DETAILED NOTES WHICH WERE THEN PUT IN A MEMO GIVEN TO [] THAT MEMO OR THE TRANSCRIPTS OF THOSE NOTES HAVE BEEN WIDELY PUBLISHED. NOT ONLY ARE THEY INCLUDED IN MATERIALS GIVEN TO THE HOUSE BANKING COMMITTEE, THEY HAVE ALSO BEEN INCLUDED IN THE RECENT WRITTEN NOVEL "INSIDE JOB". [] AND THE ABOVE MENTIONED

PAGE NINE (58C-PX-41605)

INDIVIDUALS NEED TO BE INTERVIEWED IN GREAT DETAIL REGARDING THEIR MEETING WITH THE FIVE U.S. SENATORS ON 4/9/87.

AT THIS POINT IT APPEARS THE INVESTIGATION WILL CONTINUE WITH THE ABOVE INTERVIEWS THE WEEK OF 11/27/89. REPRESENTATIVES FROM FBI IN SANTA ANA AND IN PHOENIX WILL TRAVEL TO SAN FRANCISCO TO INTERVIEW THOSE INDIVIDUALS. AN ADDITIONAL COMMUNICATION WILL BE FORTHCOMING SETTING OUT ADDITIONAL DETAILS AND ARRANGEMENTS REGARDING THE TRAVEL TO SAN FRANCISCO FOR THE INTERVIEWS. FBIHQ WILL BE IMMEDIATELY ADVISED AS TO THE RESULTS OF THOSE INTERVIEWS UPON THEIR COMPLETION.

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FM FBI PHOENIX (58C-41605) (P)

TO DIRECTOR FBI/ROUTINE/

FBI LOS ANGELES (58C-PX-41605)/ROUTINE/

FBI SAN FRANCISCO (58C-PX-41605)/ROUTINE/

BT

UNCLAS

CITE: //3630//

SUBJECT: ALLEGATIONS CONCERNING U.S. SENATORS ALAN CRANSTON,
DENNIS DE CONCINI, JOHN GLENN, JOHN MC CAIN, DONALD REIGLE,
CHARLES H. KEATING, JR., DBA LINCOLN SAVINGS AND LOAN (LSL)
ASSOCIATION OF CALIFORNIA AND AMERICAN CONTINENTAL CORPORATION
(ACC), PHOENIX, ARIZONA; CORRUPTION OF FEDERAL PUBLIC OFFICIALS -
LEGISLATIVE; OO: PHOENIX/LOS ANGELES.

RE LOS ANGELES TELETYPE TO DIRECTOR NOVEMBER 14, 1989,
PHOENIX TELCALL TO SAN FRANCISCO, NOVEMBER 20, 1989.

TELETYPE

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FOR THE INFORMATION OF SAN FRANCISCO, PHOENIX AGENTS [REDACTED]

[REDACTED] AND LOS ANGELES AGENTS [REDACTED]

[REDACTED] WILL BE IN SAN FRANCISCO, NOVEMBER 27-30,

1989, TO CONDUCT INTERVIEWS OF EMPLOYEES OF THE OFFICE OF THRIFT
SUPERVISION (OTS). AGENTS WILL BE STAYING AT THE MARK HOPKINS
HOTEL. NO ASSISTANCE IS REQUESTED OF SAN FRANCISCO FBI AT THIS
TIME. SAC'S LOS ANGELES, SAN FRANCISCO AND PHOENIX CONCUR IN
AGENTS' TRAVEL TO INTERVIEW OTS EMPLOYEES. THE UACB AGENTS WILL
TRAVEL AS DESCRIBED.

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FEDERAL BUREAU OF INVESTIGATION

Date of transcription 11/16/89

[redacted]
[redacted] Congressional Relations and Communications for the OFFICE OF THRIFT SUPERVISION, 1700 G Street Northwest, Washington D.C., telephone [redacted] was advised as to the identity of the interviewing agent and the purpose of the interview at which time she advised as follows:

[redacted] stated her date of birth is [redacted] and she was born in Jamestown, New York. Her Social Security number is [redacted]

[redacted] confirmed she was [redacted]
[redacted] for FEDERAL HOME LOAN BANK BOARD [redacted]
[redacted]

[redacted] further stated she recalls a meeting which took place on April 2, 1987, between [redacted] and four United States senators. She advised she was at the office when he returned from the meeting. She recalls he was very upset however she was included in the briefing session held after the meeting. She recalls those in the meeting that were briefed were [redacted]
[redacted]

[redacted] advised she was not instructed to do any typing or take any notes regarding the meeting with the senators or the subsequent briefing. [redacted] did do some work [redacted]
[redacted] in conjunction with the second meeting with the senators which took place on April 9, 1987.

[redacted] does not recall taking a call from any senator office setting up the April 2, 1987, meeting. [redacted] was aware that the meeting was to take place and was aware that [redacted] was to go to the meeting without staff. She does not specifically recall how she found out [redacted] was to go to the meeting alone. She believes she possibly could have taken the message or she was told by [redacted]. As mentioned she does not specifically recall taking the telephone call.

[redacted] confirmed the fact that it was customary for [redacted] to attend meetings with senators and other individuals regarding FEDERAL HOME BANK BOARD business and take a staff member along. In addition, he would normally get [redacted] staff together after the meeting and brief them as to what took place. Those meetings were normally private meetings held in [redacted] office.

Investigation on 11/9/89 at Washington D.C.File # 58C-PX-41605-7by SA [redacted] cptDate dictated 11/14/89

58C-PX-41605

Continuation of FD-302 of [redacted], On 11/9/89, Page 2*

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[redacted] further confirmed [redacted] made it a matter of policy that he would not meet with anyone who had business before the FEDERAL HOME LOAN BANK BOARD. Business would include an examination or an application or any other situation where approval was needed by the Bank Board. She was instructed to ask any individual prior to turning them over to [redacted] if they had business before the Bank Board. If they did then a meeting was declined with [redacted] and set up [redacted] staff. [redacted] was the only person who did his scheduling and basically updated his personal calendar. In addition, [redacted] would have what they referred to as "dance cards" made up each night for his schedule the next day.

Memorandum



To : SAC, LOS ANGELES (58C-PX-41605)
(SARA/WCC-4) (P)

Date 11/28/89

From : SA [REDACTED]

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b7C

Subject: UNITED STATES SENATORS ALAN CRANSTON,
DENNIS DE CONCINI, JOHN GLENN,
JOHN MC CAIN, DONALD RIEGLE;
CHARLES H. KEATING, DBA
LINCOLN SAVINGS AND LOAN ASSOCIATION OF CALIFORNIA AND
AMERICAN CONTINENTAL CORPORATION, PHOENIX, ARIZONA;
CORRUPTION OF FEDERAL OFFICIALS - LEGISLATIVE
OO: PHOENIX
OO: LOS ANGELES

The following is a chronological list of events in this matter obtained from interviews, newspaper articles, and other investigation to date.

5/01/83	[REDACTED] the FEDERAL HOME LOAN BANK BOARD (FHLBB).
2/22/84	AMERICAN CONTINENTAL CORPORATION (ACC) buys LINCOLN SAVINGS AND LOAN ASSOCIATION (LINCOLN) for \$51,000,000.
12/07/84	CALIFORNIA DEPARTMENT OF SAVINGS AND LOAN ASSOCIATIONS [REDACTED] approves \$800,000,000 of direct investments by LINCOLN immediately before the 12/10/84 deadline for the investments to qualify as grandfathered investments under new FHLBB regulation.
12/10/84	FHLBB re-proposes direct investment regulation (12CFR563.9-8) - would generally limit direct investments to 10 percent of assets - contains grandfather clause.
12/84 - 1/85	Congressman CHARLES "CHIP" PASHAYAN lobbies [REDACTED] to not adopt direct investment regulation.
1/01/85	[REDACTED] leaves DEPARTMENT OF SAVINGS AND LOAN ASSOCIATIONS and begins work with TCS FINANCIAL of San Diego.

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2 - Phoenix
2 - Los Angeles

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1/18/85 LINCOLN invests \$2,900,000 in TCS FINANCIAL for a 19.1 percent stake sold in private offering - 578,000 shares at \$5 per share.

1/31/85 FHLBB adopts the 10 percent direct investment rule, which is implemented 3/18/85.

2/13/85 [] writes the FHLBB of San Francisco on behalf of LINCOLN requesting that LINCOLN be exempted from the 10 percent direct investment rule.

Late 1985 and 3/86 ACC contributes \$200,000 to NATIONAL COUNCIL ON PUBLIC POLICY - affiliated with Senator JOHN GLENN.

4/ /85 KEATING AND ASSOCIATES contribute \$15,000 to Senator PETE WILSON.

4/09/85 KEATING AND ASSOCIATES contribute \$13,000 to Senator ALAN CRANSTON.

5/27/85 [] and UNIVERSITY OF ROCHESTER Professor [] testify, on behalf of LINCOLN, before Government Operations Oversight Subcommittee in opposition to FHLBB's direct investment position.

7/20/85 White House staffer [] tells [] that White House Chief of Staff DON REGAN said in June personnel meeting that he wanted [] out soon.

7/31 - 8/15/85 KEATING AND ASSOCIATES contribute \$22,000 to Senator GLENN.

7/31 - 8/15/85 KEATING AND ASSOCIATES contribute \$16,000 to Senator DENNIS DE CONCINI.

9/30/85 White House staffer, [] relays REGAN's request to [] that [] resign.

10/01/85 [] told by Washington attorney [] that he had a job offer for [] had previously been so advised by FHLBB member, []

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10/14/85 - 10/25/85 KEATING AND ASSOCIATES contribute \$8,000 to Senator CRANSTON.

11/13/85 KEATING AND ASSOCIATES contribute \$8,000 to Congressman JACK KEMP.

11/22/85 [redacted] meets with KEATING and [redacted] in Washington regarding job offer for [redacted]

11/ /85 [redacted] California Assemblyman PAT NOLAN successfully lobby CALIFORNIA SAVINGS AND LOAN [redacted] to drop a proposed rule that would have limited LINCOLN's investments by requiring 80 percent be mortgage loans.

11/26/85 KEATING and [redacted] contribute \$4,000 to DEMOCRATIC CONGRESS CAMPAIGN COMMITTEE.

11/27/85 NOLAN and [redacted] lobby CALIFORNIA LEAGUE OF SAVINGS INSTITUTIONS officials to drop support of [redacted] proposal.

12/ /85 NOLAN reportedly receives \$9,000 campaign contribution from KEATING.

3/01/86 KEATING and Senator DON RIEGLE meet in Detroit at opening of HOTEL PONTCHARTRAIN ("L.A. Times," 5/30/89).

3/03/86 KEATING AND ASSOCIATES contribute \$12,000 to KOLBE.

3/12/86 Regularly scheduled FHLBB examination of LINCOLN begins.

3/17-31/86 KEATING AND ASSOCIATES contribute \$54,000 to Senator JOHN MC CAIN.

4/04/86 KEATING AND ASSOCIATES contribute \$10,000 to MATTINGLY.

4/ /86 [redacted]

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4/09/86 KEATING AND ASSOCIATES contribute \$5,000 to NATIONAL ACTION COMMITTEE, identified as Congressman DAVE EVANS' POLITICAL ACTION COMMITTEE (PAC).

6/02/86 KEATING AND ASSOCIATES contribute \$11,000 to Congressman CHARLES PASHAYAN.

7/03/86 KEATING meets with San Francisco examiners and reportedly threatens to sue members of FHLBB.

7/25/86 KEATING AND ASSOCIATES contribute \$20,000 to Senator PAULA HAWKINS.

7/28/86 KEATING AND ASSOCIATES contribute \$19,000 to Congressman DOUG BARNARD.

8/04/86 [] writes White House Chief of Staff DONALD REGAN, complaining about [] and mentioning his adverse effect on Republican fund raising.

8/4-6/86 KEATING AND ASSOCIATES contribute \$11,000 to Senator CRANSTON.

8/14-17/86 KEATING AND ASSOCIATES contribute an additional \$13,000 to Congressman PASHAYAN, for a total of \$24,000.

8/20/86 KEATING AND ASSOCIATES contribute \$10,000 to Senator DE CONCINI.

8/22/86 KEATING AND ASSOCIATES contribute \$4,000 to HARRY REID.

8/22 - 9/04/86 KEATING AND ASSOCIATES contribute \$21,150 to Congressman JON KYL.

8/28/86 KEATING AND ASSOCIATES contribute \$9,000 to Congressman RHODES.

9/20/86 "Washington Post" writes that LINCOLN officials claim FHLBB harassment. [] asks FHLB OF SAN FRANCISCO to explain - San Francisco blames LINCOLN for delays in examination.

Fall 1986 KEATING AND ASSOCIATES reportedly contribute \$85,000 to the CALIFORNIA DEMOCRATIC PARTY for CRANSTON's benefit.

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11/ /86 Atlanta attorney, [] a friend of KEATING and borrower from and attorney for LINCOLN, is appointed to the FHLBB.

12/18/86 [] proposes at FHLBB meeting a rule change that would protect LINCOLN from enforcement of the direct investment rule. [] proposal died for lack of a second.

2/13/87 - 3/18/87 KEATING AND ASSOCIATES contribute \$11,000 to TIM WIRTH.

2/26/87 Senator RIEGLE meets with [] then with ARTHUR YOUNG, and an ACC official to discuss LINCOLN's dispute with regulators ("Wall Street Journal," 11/15/89).

2/27/87 FHLBB [] (abstaining) adopts "equity risk investment rule" to be effective 4/15/87; shortly thereafter, LINCOLN sues to block the rule as unconstitutional.

3/03/87 KEATING and [] contribute \$4,000 to DAVE EVANS' PAC.

3/06/87 Senator RIEGLE meets with [] - says Arizona senators are quite concerned about FHLBB regulation of LINCOLN. Shortly thereafter RIEGLE and [] visit KEATING in Phoenix and after a helicopter tour, RIEGLE reportedly states, "I like what I see here. I can reason with []" ("American Banker," 11/14/89).

3/13/87 [] of ARTHUR YOUNG (later of ACC) writes letter to senators critical of regulators and equity risk investment rule.

3/18/87 LINCOLN sues FHLBB, challenging the direct investment limitations.

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3/19/87



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3/24/87

Senator JOHN MC CAIN meets with KEATING and KEATING asks for MC CAIN's negotiating assistance. MC CAIN declines and six-year friendship ends. DE CONCINI meets separately with KEATING during this time period ("Arizona Republic," 10/17/89).

3/11-24/87


KEATING AND ASSOCIATES contribute at least \$70,750 to RIEGLE; KEATING has luncheon for RIEGLE at HOTEL PONTCHARTRAIN on 3/23/87.

4/01/87


 resigns from FHLBB.

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4/02/87

 meets with Senators DE CONCINI, MC CAIN, CRANSTON and GLENN in DE CONCINI's office regarding LINCOLN.

4/09/87

 and three other FHLBB regulators meet in DE CONCINI's office with DE CONCINI, MC CAIN, CRANSTON, GLENN and RIEGLE - DE CONCINI tries to make deal for LINCOLN - offers that LINCOLN will invest 55 percent of assets in home mortgages if FHLBB yields on direct investment rule and property appraisals.

5/01/87

FHLB OF SAN FRANCISCO recommends to FHLBB that LINCOLN be seized.

6/30/87


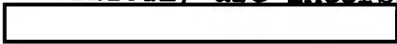
 leaves FHLBB post; replaced by 


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7/ /87

LINCOLN sues FHLBB over leaks of information regarding LINCOLN examination.

7/10/87

CENTER FOR PARTICIPATION IN DEMOCRACY and THE ORGANIZING INSTITUTE (originally known as MONTEREY LEADERSHIP TRAINING INSTITUTE) are incorporated - 


9/24/87 KEATING meets with [] regarding 1986 FHLB OF SAN FRANCISCO examination.

10/29/87 KEATING AND ASSOCIATES contribute \$5,500 to DE CONCINI - brings total contribution to \$39,000.

1987 ACC contributes \$100,000 to the FORUM INSTITUTE.

1987 - 1988 ACC contributes \$125,000 to USA VOTE, a project of NEW DIMENSION RESOURCES.

Early 1988 ACC contributes an additional \$225,000 to the FORUM INSTITUTE.

1/28/88 [] meets with KEATING re KEATING's complaints of news leaks.

2/02/88 KEATING AND ASSOCIATES contribute \$4,000 to KOLBE.

2/10/88 ACC contributes \$400,000 to CENTER FOR PARTICIPATION IN DEMOCRACY.

2/ /88 CRANSTON visits KEATING in Phoenix at the expense of NEW DIMENSION resources.

3/11/88 KEATING contributes \$10,000 to Congressman DAVE EVANS' PAC (NATIONAL ACTION COMMITTEE).

4/09/88 KEATING AND ASSOCIATES contribute \$11,500 to Senator OREN HATCH.

5/ /88 [] vote to transfer regulation of LINCOLN from San Francisco to Washington.

6/08/88 KEATING AND ASSOCIATES contribute \$100,000 to REPUBLICAN NATIONAL COMMITTEE and attend dinner with Vice President GEORGE BUSH.

10/18-24/88 KEATING AND ASSOCIATES contribute \$41,000 to Senator HECHT.

1/17/89 KEATING visits [] and reveals his intention to sell LINCOLN.

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4/ /89 CRANSTON urges [] and FHLBB member,
[] to reconsider sale of
LINCOLN to [] ("L.A. Times,"
5/27/89).

4/ /89 At KEATING's request, DE CONCINI
telephones [] and asks him to support
the sale of LINCOLN to []
("Mesa Tribune," 4/23/89).

4/11/89 []

4/13/89 ACC files for Chapter 11 Reorganization.

4/14/89 FHLBB seizes LINCOLN - placed in
conservatorship.

9/18/89 Senator DE CONCINI says he will return
\$48,000 in campaign contributions
made by KEATING AND ASSOCIATES.

11/08/89 Congressman PASHAYAN says he will return
\$26,000 in campaign contributions made
by KEATING AND ASSOCIATES.

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Airtel

TRANSMIT VIA: _____

Unclass

CLASSIFICATION: _____

DATE: 12/5/89

FROM: Director, FBI

TO: SACs, Phoenix (58C-PX-41605)
Los Angeles

ALLEGATIONS CONCERNING U.S. SENATORS ALAN CRANSTON, DENNIS DECONCINI, JOHN GLENN, JOHN MCCAIN, DONALD RIEGLE; CHARLES H. KEATING, DBA LINCOLN SAVINGS AND LOAN (S&L) ASSOCIATION OF CALIFORNIA AND AMERICAN CONTINENTAL CORPORATION; PHOENIX, ARIZONA; CORRUPTION OF FEDERAL PUBLIC OFFICIALS - LEGISLATIVE; OO: PHOENIX OO: LOS ANGELES

ReButelcal of SSA [redacted] to SSA [redacted]
Phoenix Division on 11/29/89.

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Enclosed for Phoenix are copies of the testimony and exhibits of individuals appearing before the Committee on Banking, Finance and Affairs, U.S. House of Representatives, and a copy of the Congressional Record - Senate relating to the response of Senator Cranston to Common Cause from the Senate Ethics Committee.

For information of receiving offices, on 11/30/89, representatives of the White-Collar Crimes Section and Congressional Affairs Office met with [redacted] of the law firm Dunnell, Duvall, Bennett and Porter [redacted]

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[redacted] the Senate Select Committee on Ethics to investigate their actions of the captioned senators in the intervention on behalf of Lincoln S&L Association with the Federal Home Loan Bank Board.

The purpose of this meeting was to open a line of communication in view of the parallel investigative interests in this matter. Discussed were areas of common concerns and an offer of, to the extent permissible by policy and legal considerations, an exchange of information. Issues regarding original evidence and the possibility of granting of immunity were discussed.

[redacted] assured that his office would only accept copies of documents from witnesses eliminating the problem of the FBI having to obtain the originals from his office. As it relates to the granting of immunity, [redacted] indicated that the FBI would be notified in ample time to allow appropriate investigative action and to prepare for procedures to insulate investigative Agents from the testimony. [redacted] advised that public hearings are a possibility, however, this was several months away.

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DEC 8 1989

[redacted]

FILED

FBI/DOJ

Airtel to SAC, Phoenix

RE: Allegations Concerning U.S. Senators Alan Cranston, Dennis DeConcini, John Glenn, John McCain, Donald Riegle; Charles H. Keating, DBA Lincoln Savings and Loan (S&L) Association of California and American Continental Corporation; Phoenix, Arizona; Corruption of Federal Public Officials - Legislative; OO: PHOENIX OO: LOS ANGELES

The meeting, which was cordial throughout, concluded with the agreement to keep the lines of communication open and to exchange information, where possible.

FBIHQ is currently in the process of obtaining copies of the television programs, "Nightline" on 11/22/89, and "This Week with David Brinkley," of 11/26/89, relating to captioned matter. Upon receipt, Phoenix and Los Angeles will be provided with copies of same. Phoenix and Los Angeles should remain alert to any information pertaining to interviews both in print or electronic media, of captioned subjects and/or possible witnesses in captioned matter.

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FM FBI PHOENIX (29D-LA-102009) (P)

TO FBI NEW YORK/PRIORITY/

FBI LOS ANGELES (29D-LA-102009) (58C-PX-41605)/PRIORITY/

FBI SAN FRANCISCO/PRIORITY/

FBI WMFO/PRIORITY/

BT

UNCLAS

CITE: //3630//

SUBJECT: DESERT GEM; MAJOR CASE 24; OO: LOS ANGELES/PHOENIX.

ON DECEMBER 8, 1989, AUSA [REDACTED] LOS ANGELES,
CALIFORNIA, ADVISED THAT ON THIS DATE HE RECEIVED INFORMATION
FROM (FNU) [REDACTED] PUBLIC INTEGRITY SECTION, WASHINGTON, D.C.,
WHO IN TURN HAD RECEIVED INFORMATION FROM CONGRESSMAN JAMES H
SCHEUER FROM THE DISTRICT OF QUEENS, NEW YORK, THAT CHARLES H.
KEATING, JR. IS A FLIGHT RISK. [REDACTED] DID NOT DISCLOSE

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TELETYPE COPY

58C-PX-41605-10

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DEC 09 1989	

[REDACTED]

SARA

PAGE TWO DE FBIPX 0008 UNCLAS

[REDACTED] SOURCE OF INFORMATION OR THE RELIABILITY OF THIS INFORMATION. [REDACTED] DID CONTACT (FNU) [REDACTED] STATE DEPARTMENT, WASHINGTON, D.C., WHO CONFIRMED THAT KEATING IS IN POSSESSION OF A VALID PASSPORT AND HAS A HISTORY OF APPLICATION AND RECEIPT OF A NUMBER OF PASSPORTS.

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FOR THE INFORMATION OF NEW YORK, KEATING IS ONE OF A NUMBER OF TARGETS OF THE LA/PX MAJOR CASE PERTAINING TO THE FAILURE OF LINCOLN SAVINGS AND LOAN ASSOCIATION, A BANK FAILURE WITH LOSSES TO REACH 2.5 BILLION DOLLARS. ON MONDAY, 9:00 A.M., DECEMBER 11, 1989, A HEARING IS BEING HELD IN LOS ANGELES, CALIFORNIA, IN AN ATTEMPT TO FREEZE OVER \$100 MILLION IN PERSONAL ASSETS OF CHARLES H. KEATING, JR.

NEW YORK DIVISION AT NEW YORK CITY, NEW YORK. ATTEMPT TO LOCATE CONGRESSMAN JAMES H. SCHEUER, NEW YORK, DURING THE WEEKEND OF DECEMBER 9 AND 10, 1989, TO DETERMINE THE SOURCE OF HIS INFORMATION REGARDING KEATING AND CONDUCT ANY FOLLOW UP INVESTIGATION TO DETERMINE IF CHARLES KEATING, JR. IS A FLIGHT RISK. NEW YORK IS TO FURNISH THIS INFORMATION IF AVAILABLE TO FBI, PHOENIX SPECIAL AGENTS [REDACTED]

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[REDACTED] SO THAT IT MAY BE RELAYED TO THE U.S. ATTORNEY'S OFFICE, LOS ANGELES, CALIFORNIA, BEFORE THE 9:00 A.M. HEARING, MONDAY,

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PAGE THREE DE FBIPX/0008 UNCLAS

DECEMBER 11, 1989.

WMFO AT WASHINGTON, D.C. WILL CONTACT (FNU) OR THE
APPROPRIATE INDIVIDUAL AT THE STATE DEPARTMENT, WASHINGTON, D.C.
AND OBTAIN COPIES OF ALL OF THE PASSPORT APPLICATIONS AND THEIR
CURRENT STATUS FOR CHARLES H. KEATING, JR., A WHITE MALE, DOB
DECEMBER 4, 1923, SSAN 283-12-4022, AND LAST RESIDING AT 6326
NORTH 38TH STREET, PARADISE VALLEY, ARIZONA.

SAN FRANCISCO DIVISION AT SAN FRANCISCO, CALIFORNIA. WILL
CONTACT THE STATE DEPARTMENT AT SAN FRANCISCO FOR THE SAME
INFORMATION SET OUT FOR WMFO AS SAN FRANCISCO STATE DEPARTMENT
PROCESSES THE PASSPORT APPLICATIONS FOR THE PHOENIX, ARIZONA
DISTRICT.

BT

#0008

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11-11-89
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Date 12/11/89

To: ☐ Director

Att.: _____

FILE # _____

☒ SAC LOS ANGELES

Title _____

☐ ASAC _____

NEWSPAPER CLIPPING

☐ Supv. _____

☐ Agent _____

☐ SSS _____

☐ Rotor # _____

☐ Steno _____

☐ Typist _____

☐ M _____

RE: _____

Room _____

☐ Acknowledge

☐ For information

☐ Return assignment card

☐ Assign ☐ Reassign

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☐ Return file ☐ serial

☐ Bring file

☐ Initial & return

☐ Call me

☐ Leads need attention

☐ Return with action taken

☐ Correct

☐ Open case

☐ Return with explanation

☐ Deadline _____

☐ Prepare lead cards

☐ Search and return

☐ Delinquent

☐ Prepare tickler

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☐ Send to _____

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DEC 15 1989	
FBI — LOS ANGELES	

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[Signature]
SAC

HAL N. HELTERHOFF

See reverse side

Office

DETROIT

(Mount Clipping in Space Below)

(Indicate page, name of newspaper, city and state.)

Detroit Free Press
Detroit, Mich.Date: 12/10/89
Edition: Editorials

Title: Influence, Money and Politics

Character:
or 58C-PX-41605
Classification:
Submitting Office: Detroit

Indexing:

Influence, Money and Politics

The savings and loan scandal brings to the fore the whole question of money and political influence. Sen. Donald Riegle wrote a lengthy letter to the Detroit Free Press last week contending that his intervention with regulators on behalf of a California thrift was no different than writing a letter to the attorney general urging approval of the Joint Operating Agreement (JOA).

In fact, there was a big difference — \$76,100 to be exact.

That's the amount of money that executives connected to the California S&L contributed to Sen. Riegle's 1986 re-election campaign. The Free Press says it offered nothing to Sen. Riegle in return for his services except the hope that some jobs might be preserved in his district if the JOA were approved.

It remains to be seen whether the contributions to Sen. Riegle from the thrift executives were in any way improper. There is nothing necessarily wrong or illegal about a senator or representative intervening with bureaucrats to make sure a constituent is receiving fair play. It's not right, however, for wealthy constituents to be able to buy favors that lesser constituents couldn't expect to receive. Sen. Riegle later returned the contributions, saying he wanted to avoid even the appearance of impropriety.

Sen. Riegle has never been shy about fund-raising. A September 1988 article in The News depicted how the senator received more than \$17,000 in campaign funds from individuals connected to an Arkansas chicken-raising concern

after he voted in favor of a measure exempting it from paying certain deferred taxes. In late 1986, this newspaper criticized a letter Sen. Riegle had sent to potential contributors, asking them to attend a \$1,000-a-head fund-raising event and reminding them that he was about to take a seat on the important Senate Finance Committee.

Many critics believe that this sort of thing makes an argument for tightening campaign finance laws or even public financing of elections. As far as we are concerned, however, the best disinfectant remains sunlight — laws that require timely disclosure of campaign contributions.

When government is pumping out huge amounts of money and regulations, special interests will always find a way to jump to the head of the queue. The campaign finance laws already have been tightened considerably, and the main effect has been to make it tougher for political challengers to raise funds. Public financing would simply drive the competition for campaign funds under the table.

When Arizona financier Charles Keating was asked whether the \$1.4 million in campaign funds that he raised for five U.S. senators, including Sen. Riegle, was intended to buy influence, he responded: "I certainly hope so." The donations are now the focus of numerous investigations to see if any laws were broken. It should generally be left to voters to decide whether they like their senator's or congressman's fund-raising habits, however. An informed voter is honesty's best friend.

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FEDERAL BUREAU OF INVESTIGATION

Date of transcription 11/15/89

[redacted]
 Washington D.C., was advised as to the identity of the interviewing agents and the purpose of the interview at which time she advised as follows:

[redacted] advised her date of birth is [redacted] and she was born in Boston, Massachusetts. She further stated her Social Security Account Number is [redacted] is currently [redacted] AMERICAN REAL ESTATE GROUP (AREG), a real estate management company headquartered in Irvine, California. [redacted] was formerly [redacted]

[redacted] the FEDERAL HOME LOAN BANK BOARD [redacted]
 [redacted] served in the above capacity under the then FEDERAL HOME LOAN BANK BOARD [redacted]

Prior to working at the FEDERAL HOME LOAN BANK BOARD

[redacted]

As mentioned, [redacted] with the FEDERAL HOME LOAN BANK BOARD during the tenure of [redacted] stated [redacted] took the position of [redacted] with the view that the board was primarily a policy-making body and therefore needed a process for more deliberate policy-making. [redacted] added with that in mind they reformed the system in effect to provide the Board members with deeper staff review of various options available and longer lead times for Board review and discussion. It was with that policy-making process in mind that she and [redacted] set several Board goals. Those goals were: 1. To strengthen and protect the FEDERAL SAVINGS AND LOAN INSURANCE CORPORATION (FSLIC) fund; 2. To update the Board's regulations; 3. To expand and strengthen the Board's examine, supervisory, and enforcement operations.

In 1987, the main objective of [redacted] staff was to replenish the FSLIC fund. They had proposed what they called a "FSLIC recapitalization bill" which was being reviewed in Congress. [redacted] was attempting to solicit support from all legislators in order to obtain the additional funding to maintain

Investigation on 11/8/89 at Washington D.C.File # 58C-PX-41605 -12

by

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58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 11/8/89, Page 2

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the FSLIC fund. In April of 1987, this goal was the main objective on the agenda of [REDACTED] staff.

[REDACTED] confirmed the fact she is well aware of a meeting which took place on April 2, 1987, between [REDACTED] four high ranking United States senators. [REDACTED] recalls prior to that meeting [REDACTED] was somewhat distracted and irritated about the fact he was requested to attend the meeting alone without his staff. [REDACTED] added normally any and all meetings which took place regarding the bank board [REDACTED] would take along a staff member. [REDACTED] was not involved nor did she know who made the telephone call requesting [REDACTED] to attend the meeting alone. She believes [REDACTED] may have taken the call himself because she recalls she believes on the same day as the meeting, April 2, 1987, he came out of his office and was visibly irritated. At that time he stated he had been instructed to attend the meeting alone. She believes [REDACTED] may have taken the initial call and transferred it into [REDACTED]. In addition to [REDACTED]

[REDACTED] stated one [REDACTED] was also [REDACTED] primarily worked for [REDACTED] however she and [REDACTED] would exchange duties.

[REDACTED] further recalls [REDACTED] to remain in the office until the conclusion of the above mentioned meeting. It was customary for [REDACTED] to return from any and all meetings and brief [REDACTED] staff as to what took place. On this particular occasion he again asked the staff to remain at the office and he would brief them upon returning from the meeting with the senators.

[REDACTED] advised as mentioned above the main objective on [REDACTED] mind at this time was the FSLIC recapitalization bill. She believes he was so focused that he wanted to seize this opportunity to meet with the senators and in addition to discuss the FSLIC recapitalization bill and solicit their support.

[REDACTED] does not specifically recall the time [REDACTED] returned however she believes it was around 7:00 to 7:30 p.m. on April 2, 1987. She specifically recalls he was very upset and immediately began a briefing session with [REDACTED]

She recalls [REDACTED] did not write a memo or any sort of [REDACTED]

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58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 11/8/89, Page 3

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communication regarding the meeting however as before he relied on his staff to listen to the information in the briefing session.

[REDACTED] added during the briefing session she remembers being in and out of the office doing work. At that particular time at 7:00 or 7:30 on the east coast it is still 4:00 or 4:30 on the west coast and they have supervisory control over all the FEDERAL HOME LOAN BANKS including those in the west coast. They would still have been in business and she may have been corresponding with the west coast banks.

[REDACTED] believes she may have been out of the room when [REDACTED] mentioned the second half of the alleged "QUID PRO QUO", regarding the home loan program which was discussed. She does specifically recall him mentioning that DECONCINI and the other senators requested [REDACTED] to withdraw the direct investment regulation. As mentioned she does not specifically recall the second half of that discussion regarding their suggestion that if the regulation is withdrawn they would improve the home loan program. She believes she would have definitely remembered that part of the conversation had she heard it due to the fact that the home loan program was a very sensitive matter to her. She specifically recalls [REDACTED] being offended and upset and also worried that now these senators were not on his side regarding the FSLIC recapitalization bill. She further recalls [REDACTED] mentioning they discussed the appraisal issue in that the senators were complaining about the appraisal procedures used by the San Francisco regulators regarding the LINCOLN SAVINGS AND LOAN examination. She further recalls [REDACTED] advising them that a discussion took place regarding the length of the examination and that [REDACTED] basically could not answer any questions regarding the details of the examination.

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[REDACTED] advised she did not take any notes during the briefing session and as mentioned above she was in and out of the session. She believes [REDACTED] would either recall more detail or may have even taken notes of the briefing. [REDACTED] recalls a sense that [REDACTED] felt very vulnerable due to the FSLIC recap situation and he felt he had been coerced by the senators. She believes the briefing session was not only to advise them as to what took place at the meeting but was somewhat

58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 11/8/89, Page 4

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of a letting off of steam session for [REDACTED]. She specifically recalls him stating, "CHARLIE must have been involved because the senators knew so much about LINCOLN SAVINGS AND LOAN".

[REDACTED] was not aware of the memo written by the staff of Senator DECONCINI on March 19, 1987. She became aware of that memo on November 7, 1989, just prior to her testimony before the House Banking Committee. As mentioned she did not know it existed and had not read about it in the newspaper.

[REDACTED] confirmed the fact she was involved in an approach by CHARLES KEATING, JR., to hire [REDACTED] away from the bank board to go to work for KEATING. In addition, she stated she has written a statement about her involvement which was included in her statement to the House Banking Committee.

[REDACTED] advised she recalls that in early October 1985 she was told by then board member [REDACTED] had been contacted by a Washington D.C. attorney who was suggesting that a client of his wanted to hire [REDACTED]. At that time [REDACTED] suggested that [REDACTED] mention it to [REDACTED] rather than [REDACTED]. Apparently [REDACTED] did in fact mention it to [REDACTED] at which time [REDACTED] told [REDACTED] about the job offer. Immediately after [REDACTED] learned of the apparent job offer approach he and [REDACTED] went directly to [REDACTED] their counsel and security officer. They explained to [REDACTED] exactly what they had heard about the approach. [REDACTED] was adamant that he was not going to discuss a job offer with anyone that had anything to do with an examination or business before the FEDERAL HOME LOAN BANK BOARD. At that time [REDACTED] suggested if they wanted to pursue the approach then [REDACTED] should have "an agent" represent him during any negotiations. [REDACTED] stated at that time he wanted [REDACTED] to be his agent. [REDACTED] then went back to [REDACTED] and told her she was acting as [REDACTED] agent and to contact the individual who initially told [REDACTED] of the job offer and asked that individual to contact [REDACTED].

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[REDACTED] then, shortly thereafter, received a call from Attorney [REDACTED] who practices law in Washington D.C. He stated to [REDACTED] he wanted to talk to her about "an offer of employment for [REDACTED]". [REDACTED] told [REDACTED] that she would pursue any such discussions with the principal,

58C-PZ-41605

Continuation of FD-302 of [REDACTED]

, On 11/8/89, Page 5

b6
b7C

directly. [REDACTED] later contacted [REDACTED] and advised her she would be receiving a call from the office of MR. CHARLES KEATING. At this point, they were not aware as to exactly who the principal was who wanted to offer [REDACTED] a job and upon finding out it was CHARLES KEATING they were very surprised. [REDACTED] was subsequently contacted by a representative from the KEATING office at which time a breakfast meeting was set up for November 22, 1985, at the FOUR SEASONS HOTEL RESTAURANT in Washington D.C.

On November 22, 1985, [REDACTED] met for breakfast with MR. CHARLES KEATING and two of his associates at 8:30 a.m. in the main dining room of the FOUR SEASONS HOTEL. There was some confusion as to where they were to meet and KEATING and his associates waited for her in the lobby and she proceeded directly to the dining room. When they did not initially meet, [REDACTED] of LINCOLN SAVINGS AND LOAN, called the office of [REDACTED] to determine whether she had been delayed and told her secretary [REDACTED] that they were waiting for her in the lobby. [REDACTED] subsequently told [REDACTED] that [REDACTED] was probably waiting in the dining room. MR. KEATING, [REDACTED] and a third KEATING associate then joined [REDACTED] in the dining room.

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[REDACTED] stated MR. KEATING spoke directly with [REDACTED] at that time and told her he wanted [REDACTED] to come with his organization in a job capacity which he described as "using [REDACTED] contacts and skills to further the corporate interests and activities of LINCOLN SAVINGS". KEATING explained his motivation by noting that there was a problem in his ability to have a message heard by the FEDERAL HOME LOAN BANK BOARD and that he needed someone to educate the bank board as to their corporate initiatives and in his attempts to get past the existing regulatory road blocks. Basically KEATING felt he was being ignored and unheard and wanted someone to express his views to the bank board. Upon learning of the offered position, [REDACTED] advised she told KEATING that [REDACTED] would definitely not be interested in the position. They briefly discussed [REDACTED] regulatory philosophy as opposed to KEATING's and determined they were both very different. When [REDACTED] told KEATING that [REDACTED] would not be interested he basically stated "that's fine" at which time [REDACTED] told KEATING and his associates she did not

58C-PX-41605

Continuation of FD-302 of [REDACTED], On 11/8/89, Page 6*

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want to be contacted again regarding that issue. [REDACTED] advised after ceasing to discuss the job position she did not get into any sort of salary discussions, therefore at that time did not know the amount of money KEATING wanted to offer [REDACTED] for the position. [REDACTED] added at that time she believed such an offer was an attempt by MR. KEATING to remove [REDACTED] as the source of KEATING's "regulatory problems".

In addition to the above sometime later she believes in the mid to latter part of 1986, the office of Senator WILLIAM PROXMIRE became aware of the job offer by KEATING and requested [REDACTED] to write a letter detailing her involvement. On September 19, 1986, [REDACTED] did in fact write Senator WILLIAM PROXMIRE and advise as to the above mentioned details.

58C-PX-41605-13

RM	RM
4	
	APR

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 12/1/89

[redacted] THE EVANS GROUP LIMITED, 1010 Wisconsin Avenue, Northwest, 8th Floor, Washington D.C., 20007, was advised as to the identity of the interviewing agents and the purpose of the interview at which time she advised as follows:

[redacted] advised her date of birth is [redacted] and she was born in Philadelphia, Pennsylvania. Her Social Security number is [redacted]

[redacted] is currently a political consultant and lobbyist with THE EVANS GROUP LIMITED located in Washington D.C. with telephone number (202) 333-8777. [redacted] also resides in Washington D.C. and has a home telephone number of [redacted] 2363.

[redacted] confirmed the fact [redacted] former FEDERAL HOME LOAN BANK BOARD (FHLBB) [redacted] She was [redacted] Part of [redacted] various meetings with legislators on Capital Hill with [redacted] FHLBB, [redacted] had various reasons to meet with representatives both from the Senate and from the House and he would take [redacted] along in those meetings. [redacted] confirmed she was aware of a meeting which took place on April 2, 1987, between [redacted] and four United States senators. She recalls prior to [redacted] attending the meeting she asked why she was not going to attend the meeting with [redacted] She specifically recalls [redacted] stating to her that he was told to attend the meeting and not to bring any staff members. She further confirmed [redacted] asked [redacted] to wait at the FHLBB offices for a briefing of the meeting after it took place on April 2, 1987. [redacted] confirmed in fact she was present at the briefing immediately after the April 2, 1987, meeting.

[redacted] specifically recalls [redacted] was upset upon returning from the meeting and basically made the statement "You guys would not believe what they asked me to do, they asked me to withdraw the direct investment regulation and they would have CHARLIE KEATING build up their home loan program." [redacted] further stated she was present during the entire briefing however did not take notes as to the information being relayed by [redacted]

Investigation on 11/9/89 at Washington D.C. File # 58C-PX-41605

by SA [redacted] /GKM/cpt Date dictated 11/13/89

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58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 11/9/89, Page 2*

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[REDACTED] recalls in general hearing about the senators complaints regarding appraisal standards and the length of the exam. She does not recall if she heard this at the April 2, 1987 briefing. She believes it logical that [REDACTED] mentioned at least the length of the exam issue, during the briefing. She believes this due to the fact it precipitated his referral to the San Francisco examiners.

[REDACTED] also confirmed the fact that she was involved in late night meetings on or about December 18, 1986, when discussions were taking place among the bank board members and staff as to the direct investment regulation. The regulation had been in effect for approximately two years and was due to be either renewed or changed. Discussion was taking place regarding the various changes that could be made to the current direct investment regulation. In addition also taking place in the discussions were then board member [REDACTED] specifically recalls [REDACTED] remaining somewhat quiet during the late night discussions. [REDACTED] specifically recalls [REDACTED] not submitting a proposal during the late night meetings. He then presented a proposal the next day completely typed in neat form at the official bank board meeting at which time a vote was to be taken. [REDACTED] recalls the proposal [REDACTED] submitted had a number of changes to the direct investment rule including one which would directly and primarily benefit LINCOLN SAVINGS AND LOAN.

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ZNR UUUUU

P 120210Z DEC 89

FM FBI SAN FRANCISCO (29D-LA-102009) (RUC) (SQUAD 5)

TO FBI LOS ANGELES (58C-PX-41605)/PRIORITY/

FBI PHOENIX/PRIORITY/

INFO FBI NEW YORK/ROUTINE/

FBI WMFO (INFO)/ROUTINE/

BT

UNCLAS

CITE: //3790//

SUBJECT: DESERT GEM; MAJOR CASE 24; OO: LA/PX.

[REDACTED] U.S. STATE

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DEPARTMENT, 525 MARKET STREET, SAN FRANCISCO, CALIFORNIA 94105.

TELEPHONE [REDACTED] ADVISED THAT A CHECK OF RECORDS FROM

1983 THROUGH OCTOBER 31, 1989 INDICATES THAT NO PASSPORT

APPLICATIONS HAVE BEEN PROCESSED FOR CHARLES H. KEATING, JR.,

WITH DATE OF BIRTH OF DECEMBER 4, 1923.

TELETYPE COPY

58C-PX-41605-14
210/11

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SERIALIZED	FILED
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FBI - LOS ANGELES	

PAGE TWO DE FBISF 0008 UNCLAS

[REDACTED] ADVISED THAT ANY APPLICATIONS MADE AFTER OCTOBER 31,

1989 WOULD BE ON FILE AT THE PASSPORT OFFICE IN WASHINGTON, D.C.

BT

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FBI

TRANSMIT VIA:

- ☐ Teletype
☐ Facsimile
☒ AIRTEL

PRECEDENCE:

- ☐ Immediate
☐ Priority
☐ Routine

CLASSIFICATION:

- ☐ TOP SECRET
☐ SECRET
☐ CONFIDENTIAL
☐ UNCLAS E F T O
☐ UNCLAS

Date 12/19/89

To : Director, FBI (Attention: Criminal Investigative Division)
 From : SAC, Phoenix (58C-PX-41605) (P)
 Subject : Public Corruption Data Transmittal Form

1. Title: (use additional page if necessary) ALLEGATIONS CONCERNING U.S. SENATORS ALAN CRANSTON, DENNIS D. DE CONCINI, JOHN GLENN, JOHN MC CAIN, DONALD RIEGLE, CHARLES H. KEATING, JR., DBA ET AL; CORRUPTION OF FEDERAL PUBLIC OFFICIALS-LEGISLATIVE; OO: PX/LA

Re: Bureau tel to PX 11/9/89, LA tel to Director, 11/14/89, meeting on 12/7/89 in PX.

2. ☒ Enclosed are the original and copies of a LHM for dissemination purposes.
 (check if appropriate)

3. Office of Origin File No. 58C-PX-41605(include alpha)

4. ☒ Initial submission ☐ Supplemental submission (check one)

5. Date opened upon ^{Bureau} ~~SAC~~ authority 11/8/89

6. Level of subject official (See codes on reverse. Use additional pages, as necessary, for additional subjects.)

Level K04 Number of Subject(s) 5
 Level _____ Number of Subject(s) _____
 Level _____ Number of Subject(s) _____

7. Indicate which of the following investigative techniques have been utilized to date.
 (check all appropriate boxes)

Code Number / Description

- Z1 ☐ Acct. Tech. Assist.
 Z2 ☐ Aircraft Assist.
 Z3 ☐ Computer Assist.
 Z4 ☐ Consensual Monitoring
 Z5 ☐ Elsur - FISC
 Z6 ☐ Elsur - Title III
 Z7 ☐ Eng. Sect. Field Support
 Z8 ☐ Eng. Sect. Tape Exams
 Z9 ☐ Hypnosis Assist.
 Z10 ☐ Ident Div. Assist.
 Z11 (A) ☐ Symboled Informant
 Z11 (B) ☐ Cooperating Witness
 Z11 (C) ☐ Cooperating Subject
 Z12 ☐ Lab. Div. Exams
 Z13 ☐ Lab. Div. Field Support

Code Number / Description

- Z14 ☐ Pen Registers
 Z15 ☐ Photo Coverage
 Z16 ☐ Polygraph Assist.
 Z17 ☐ Search Warrants Use
 Z18 ☐ Show Money Use
 Z19 ☐ Surveillance Squad Use
 Z20 ☐ Swat Team
 Z21 ☐ Tech. Agent
 Z22 ☐ Telephone Toll Records
 Z23 ☐ Group I UCO
 Z24 ☐ Group II UCO
 Z25 ☐ Undercover - Other
 Z26 ☐ NCAVG/VI - CAP
 Z27 ☐ VIA

2 - Los Angeles (1-58C-PX-41605) (1-29D-LA-102009)
 2 - Field Office, Phoenix (1-58C-PX-41605) (1-29D-LA-102009)
 5 - FBIHQ

(1 - White-Collar Crimes Section, Public Corruption Unit)

(1 - Congressional Affairs Office, SSA [redacted])

(1 - Financial Crimes Unit, SSA [redacted])

Approved: _____ Transmitted _____

1 - U.S. Attorney, Central District (Humboldt) California

1 - U.S. Attorney, District of Arizona

REB:rh

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PX-41605-1

FBI/DOJ

8. Type of Corruption Investigated (check all appropriate boxes)

Code Number/Description

(A) Judicial Corruption

- A1 ☐ Federal
A2 ☐ State
A3 ☐ Local
A4 ☐ Territorial

(C) Contract Corruption

- C1 ☐ Federal
C2 ☐ State
C3 ☐ Local
C4 ☐ Territorial

(E) Law Enforcement Corruption

- E1 ☐ Federal
E2 ☐ State
E3 ☐ Local
E4 ☐ Territorial

Code Number/Description

(B) Legislative Corruption

- B1 ☒ Federal
B2 ☐ State
B3 ☐ Local
B4 ☐ Territorial

(D) Regulatory Corruption

- D1 ☐ Federal
D2 ☐ State
D3 ☐ Local
D4 ☐ Territorial

9. Does corruption involve drug related activity? (check one) ☐ Yes ☒ No

10. Statistical Accomplishments (number since last submission)

- | | | | |
|-------------------------|-------|-----------------------|-------|
| A. Complaints | _____ | F. Acquittal | _____ |
| B. Informants | _____ | G. Recoveries | _____ |
| C. Indictments | _____ | H. Restitutions | _____ |
| D. Convictions | _____ | I. Potential Economic | _____ |
| E. Pre-trial Diversions | _____ | Loss Prevented | _____ |

11. Forfeiture Provisions Utilized (check one) ☐ Yes ☒ No

12. Status of Case (check one)

- ☒ Pending Preliminary Inquiry
☐ Pending Full Investigation
☐ Closed

13. Basis for Closing (check one)

- ☐ U.S. Attorney Declination
☐ Dismissal
☐ Acquittal
☐ Conviction
☐ Administrative by SAC (no other basis involved)

Additional Administrative Data (if needed):

See attached.

ALLEGATIONS CONCERNING U.S.
SENATORS ALAN CRANSTON,
DENNIS D. DE CONCINI,
JOHN GLENN,
JOHN MC CAIN,
DONALD RIEGLE;
CHARLES H. KEATING, JR.,
DOING BUSINESS AS
LINCOLN SAVINGS AND LOAN (LSL)
ASSOCIATION OF CALIFORNIA AND
AMERICAN CONTINENTAL CORPORATION (ACC),
PHOENIX, ARIZONA;
CORRUPTION OF FEDERAL PUBLIC
OFFICIALS - LEGISLATIVE;
OO: PHOENIX/LOS ANGELES

This matter is currently in a PI status. Based on information set forth in the enclosed LHM, the Bureau is requested to forward mentioned LHM to the Public Integrity Section, DOJ and obtain authority to convert this matter to a full investigation.

Request of the Bureau

Bureau is requested to obtain from DOJ a prosecutive opinion regarding the merits of this case outlining the violations that may apply to this investigation. This opinion is necessary to assist agents conducting the investigation so that they can establish priorities, limits, and strategies for interviews. It would also be helpful if DOJ provided a prosecutive theory based upon the strategies they believe to be applicable to this case.

The following are but a few of the questions that may be answered by obtaining a prosecutive opinion from DOJ:

- 1) To prove a violation under Title 18, USC, Section 201 (Bribery), must it be shown that the public official personally benefited in exchange for an official act, or is it sufficient to show that the official benefited politically from contributions to political organizations? May the "bribe" be in the form of a legal contributions to a tax-exempt voter registration organization?
- 2) Under Title 18, USC, Section 1505 (Obstruction of Agency Proceedings), what is necessary to prove that the obstruction was done "corruptly" as required by the statute? Must a bribe be proved? Or is proof of extraordinary attempts to influence the FHLBB sufficient? Is evidence that the tax-exempt

organizations affiliated with CRANSTON were improperly partisan, relevant to prove the corruption? With respect to the [] administration at FHLBB, what differentiates between mere lobbying by ACC and attempts to corruptly obstruct the FHLBB?

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3) Would the senators meetings with [] and the San Francisco FHLB regulators be considered "official acts" for purposes of Section 201? Would the senators' attempts to influence the FHLBB be considered fraud against the U.S. for purposes of Section 201?

4) Would proof of KEATING's belief that political contributions were necessary to obtain the political influence the FHLBB be sufficient to constitute an extortion under Section 1951?

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Proposed Investigation

Following is proposed investigation to be conducted upon receiving authority for a full field investigation:

1) Subpoena California Democratic Party records relating to \$85,000 contribution by ACC in 1986, which was reportedly spent for Cranston's re-election effort. After these records are obtained and reviewed, interview appropriate California Democratic Party officials.

2) Interview [] Los Angeles, re circumstances of:

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a. \$100,000 he reportedly raised for the Republican Party from Keating and his associates.

b. \$172,000 he reportedly raised for California Governor George Deukmejian from Keating and his associates.

c. Lobbying he did on Keating's behalf.

3) Subpoena records from the National Council on Public Policy, a Washington organization affiliated with John Glenn, which received \$200,000 from ACC. Review records of the Center for Participation in Democracy, Los Angeles, the Organizing Institute, Pacific Grove, California, the Forum Institute, Washington, DC, and USA Votes (New Dimension Resources), Washington, DC, which are or have been subpoenaed in connection with a related federal election law investigation. ACC contributed \$400,000 to CPD, \$325,000 to the Forum Institute, and \$125,000 to USA Votes. The Organizing

Institute and CPA were founded by [redacted]
[redacted]

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4) Obtain from DOJ interviews regarding the [redacted]
investigation conducted in 1986-87.

5) Review U.S. Senate financial disclosure reports filed by Senators DeConcini, McCain, Cranston, Glenn, and Riegle to uncover any financial relationships any may have had with Keating, ACC, or the organizations that received contributions from ACC. These reports have already been obtained.

6) Locate and review ACC/LSL records relating to [redacted] business dealings with Keating.

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7) Attempt to obtain details of McCain's vacations in the Bahamas and other travel at Keating's expense.

8) Locate and review Lincoln records relating to loans made to R.A. Homes, a development company owned by two unpaid members of DeConcini's campaign staff.

9) Interview [redacted] who, while at Arthur Young, wrote the senators regarding the unfairness of the Lincoln exam and who reportedly met with Senator Riegle on February 26, 1987.

10) Interview [redacted] former U.S. Treasury Department official now in New York City, regarding his reported comment that Keating bragged to him about his political influence and his job offer to [redacted]

11) Interview ACC officer [redacted] re his involvement in fund raising and lobbying.

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12) Interview Washington attorney [redacted] and former FHLBB member [redacted] who reportedly passed word to [redacted] of Keating's job offer for [redacted]

13) Interview former White House staff members [redacted] [redacted] regarding former White House Chief of Staff Donald Regan's dissatisfaction with [redacted]

14) Review testimony and exhibits from the U.S. House of Representatives Banking Committee 1989 investigation.

15) Subpoena appointment books and the like from FHLBB [redacted] to discover contacts they had with politicians and ACC/LSL

officials.

16) Interview former FHLBB members [redacted]
[redacted] re ACC/LSL lobbying.

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17) Interview [redacted]
who, according to [redacted] twice by
telephone and once in person that the reason for
transferring the FHLB exam of LSL from San Francisco to
Washington was related to Keating's influence, but that
he could not discuss it further. Interview Farm Credit
Administration official [redacted] who reportedly
witnessed [redacted] say this to [redacted]

18) Interview [redacted] who told [redacted]
that Keating wanted to hire her.

19) Interview former Arizona Governor Bruce Babbitt,
who reportedly spurned attempts by Keating to influence
him.

[redacted]

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21) Interview [redacted] of the FHLBB of Springfield,
Illinois, who participated in the LSL exam and who
reportedly claims that he was instructed to overlook
certain points in the exam.

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22) Interview [redacted] and other
FHLB examiners involved in the second exam of LSL.

23) Interview [redacted]
regarding Keating lobbying.

24) Interview [redacted] Washington, DC
journalist who had conversation with Keating regarding
having spent \$11 million to "get [redacted]"

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25) Interview [redacted] Tucson, Arizona, [redacted]
[redacted] LSL who was a "traditionalist" operator of
thrifts. [redacted] discussed this new job with [redacted]
prior to accepting the position.

26) Interview [redacted] PSA, FHLB, Seattle (12th
District) regarding his objection of having LSL
transferred to Seattle.

27) Interview former LSL ^{Loan Officer} [redacted] and Appraiser

[redacted] Los Altos, California, and review real property records of 215 Main Street, Los Altos, California, in connection with [redacted] appraisal of this property showing title in Alan Cranston. This appraisal was located in LSL records acquired by subpoena and suggests that a loan by LSL to Cranston was contemplated in October 1986.

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28) Interview [redacted] former Dennis DeConcini campaign treasurer, who was indicted October 1989 for embezzlement of campaign funds.



U.S. Department of Justice

Federal Bureau of Investigation

In Reply, Please Refer to
File No.

Phoenix, Arizona 85012

December 19, 1989

ALLEGATIONS CONCERNING U.S. SENATORS
ALAN CRANSTON, DENNIS D. DE CONCINI,
JOHN GLENN, JOHN MC CAIN, DONALD RIEGLE;
CHARLES H. KEATING, JR.,
DOING BUSINESS AS
LINCOLN SAVINGS AND LOAN (LSL)
ASSOCIATION OF CALIFORNIA
AND AMERICAN CONTINENTAL CORPORATION (ACC),
PHOENIX, ARIZONA;
CORRUPTION OF FEDERAL PUBLIC OFFICIALS - LEGISLATIVE

This matter was initiated on November 8, 1989, at the request of the Public Integrity Section of the Department of Justice which asked the assistance of the Federal Bureau of Investigation (FBI) to conduct an investigation into allegations concerning captioned U.S. Senators. The allegations arise out of the activities of Charles H. Keating, Jr., a principal in the failed Lincoln Savings and Loan Association of California. Allegedly Keating, his associates, and entities controlled by Keating made contributions to the senators campaigns and/or other organizations affiliated with the senators. Subsequently, the senators sought to intervene with the Federal Home Loan Bank Board (FHLBB) on behalf of Lincoln Savings and Loan, which at that time, was being examined by the Federal Home Loan Bank of San Francisco (FHLB-SF).

When the request for investigation was made, it was determined a preliminary inquiry was in order to determine whether the U.S. Senators may have been in violation of Title 18, U.S. Code, Sections 201 (Bribery), 371 (Conspiracy), 1951 (Hobbs Act), and/or 1505 (Obstructions of Proceedings Before an Agency) as it relates to their intervention on behalf of LSL with the FHLBB.

It was decided investigation under the PI status should be limited to interviews to corroborate statements made by [redacted] the FHLBB, relating to his meetings with the senators and the subsequent meeting arranged by [redacted] for the

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ALLEGATIONS CONCERNING U.S.
SENATORS ALAN CRANSTON, ET AL
CORRUPTION OF FEDERAL PUBLIC
OFFICIALS-LEGISLATIVE

senators with the regulators from the FHLB-SF. These regulators were conducting the examination of LSL in Irvine, California.

Investigation to date has consisted of interviews of the following individuals:

[redacted] Federal Home Loan Bank Board,
Washington, DC

[redacted] of the
Federal Home Loan Bank Board, Washington, DC

[redacted]
at the Federal Home Loan Bank Board, Washington, DC

[redacted] the Agency
Group, responsible for supervision of thrifts in the
11th District of the Federal Home Loan Bank Board;
[redacted] is currently the District Director of the
Office of Thrift Supervision in San Francisco, CA

[redacted] the Federal Home Loan Bank
of San Francisco

[redacted]
Federal Savings and Loan Insurance Corporation (FSLIC),
Washington, DC; [redacted] is currently the District Counsel
for the 11th District for the Office of Thrift
Supervision

[redacted] formerly the Supervisory Agent for
the Federal Home Loan Bank Board of San Francisco;
[redacted] is currently an Assistant Director for the
Office of Thrift Supervision in San Francisco, CA.

[redacted] formerly Attorney, Office of General
Counsel, Federal Home Loan Bank Board, Washington, DC;
[redacted] is currently a practicing attorney in San
Francisco. [redacted] of the above-
mentioned [redacted]

As previously mentioned, [redacted]
of the FHLBB testified before the house banking committee on
November 7, 1989 at which time he advised the committee as to two
private meetings held with the five U.S. Senators. On April 2,
1987, [redacted] was summoned to the office of Dennis DeConcini to

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ALLEGATIONS CONCERNING U.S.
SENATORS ALAN CRANSTON, ET AL
CORRUPTION OF FEDERAL PUBLIC
OFFICIALS-LEGISLATIVE

meet alone with Senators DeConcini, Cranston, Glenn and McCain. In that meeting, Senator DeConcini speaking on behalf of himself and the other senators requested [] to withdraw the direct investment regulation which had recently been enacted and in return Charles Keating and LSL would then increase their home loan program. In addition, the senators asked numerous detailed questions about the length of the examination being conducted and various questions regarding the appraisal procedures being utilized by the San Francisco examiners. [] was unable to fully answer the questions of the senators and referred them to the San Francisco regulators for additional details. At the conclusion of the meeting, [] returned to his office at the FHLBB in Washington, DC and briefed three []. Those [] were []

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[] was later contacted within one week of the meeting with the Senators and requested to set up a meeting between the senators and the regulators in San Francisco. [] then contacted [] in San Francisco to arrange the meeting. The Senators requested the regulators meet on April 9, 1987 also in the office of Dennis DeConcini.

As noted, the three individuals who were immediately briefed by [] were also interviewed concerning this matter. All three of the individuals confirmed the fact the meeting took place and that [] attended the meeting alone without staff. All confirmed the fact that [] was requested to go without staff and the fact the Senators had no staff in the meeting was extremely extraordinary. All three [] confirmed the fact [] immediately returned to the FHLBB offices and briefed them as to the meeting with the Senators.

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During the week of November 27, 1989, the four individuals from the San Francisco FHLB who met with the Senators on April 9, 1987 were interviewed. All those who attended the meeting on April 9, 1987 confirmed that present at the meeting were Senators Dennis DeConcini, Donald Riegle, John Glenn, John McCain. Senator Alan Cranston briefly joined the meeting introduced himself to all the bank board representatives, and advised he concurred in totality with the views of the other Senators and excused himself to go to the Senate floor. The bank board representatives present at the meeting confirmed the Senators had no staff in attendance at the meeting. They said Senator Dennis DeConcini took the lead at the meeting and appeared to be extremely knowledgeable regarding the LSL.

ALLEGATIONS CONCERNING U.S.
SENATORS ALAN CRANSTON, ET AL
CORRUPTION OF FEDERAL PUBLIC
OFFICIALS-LEGISLATIVE

situation. All the individuals confirmed the Senators questioned them regarding the length of the examination and the appraisal procedures used during the examination. In addition, they said the Senators requested the bank board to grant LSL "forbearance" regarding the direct investment regulation until a pending lawsuit was decided. All of the individuals confirmed that Attorney [redacted] took detailed notes during the meeting with the Senators. All the individuals had recently reviewed transcripts of the notes and concurred with their completeness and accuracy.

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[redacted] was contacted based on information she had received a job offer from Charles Keating, Jr. [redacted] confirmed she was contacted by a Washington, DC lobbyist who was involved with a trade association representing holding companies of thrifts. That individual's name is [redacted] stated LSL was a member of the association and he was representing LSL requesting [redacted] take a position with LSL. She declined the job offer.

Investigation has also included reviewing records from the Federal Election Commission (FEC) in Washington, DC which reflect the following contributions were made to the five U.S. Senators from Keating, his family, and employees:

4/9/85	Keating and associates contribute \$13,000 to Senator Alan Cranston
7/31- 8/15/85	Keating and associates contribute \$22,000 to Senator John Glenn.
7/31 - 8/15/85	Keating and associates contribute \$16,000 to Senator Dennis DeConcini.
10/14-25/85	Keating and associates contribute \$8,000 to Senator Alan Cranston.
3/17-31/86	Keating and associates contribute \$54,000 to Senator John McCain.
8/4-6/86	Keating and associates contribute \$11,000 to Senator Alan Cranston.

ALLEGATIONS CONCERNING U.S.
SENATORS ALAN CRANSTON, ET AL
CORRUPTION OF FEDERAL PUBLIC
OFFICIALS-LEGISLATIVE

3/11-24/87 Keating and associates contribute at least
\$70,750 to Riegle.

10/27/89 Keating and associates contribute \$5,500 to
Dennis DeConcini.

It has been widely reported that Keating and
associates contributed \$85,000 to the California State Democratic
Party that were used primarily to assist Cranston in winning his
1986 Senatorial campaign.

Investigation has shown that on July 10, 1987, []
[] organized and
incorporated two tax exempt organizations purportedly designed to
be involved in "get out the vote" efforts. Those organizations
are the Center for Participation in Democracy and the Organizing
Institute (originally known as Monterey Leadership Training
Institute). On February 10, 1988, ACC contributed \$400,000 to
the Center for Participation in Democracy. Senator Alan
Cranston has admitted soliciting the money from Charles H.
Keating and, in fact, flying to Phoenix to personally pick up the
\$400,000 check. Cranston has further confirmed in the press he
solicited from ACC \$325,000 for an organization called the Forum
Institute and \$125,000 for a project called USA Votes affiliated
with New Dimension Resources, Washington, DC.

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During the period of late 1985 through March 1986, ACC
reportedly contributed \$200,000 to an organization called the
National Council on Public Policy. This organization reportedly
is a tax exempt organization affiliated with Senator John Glenn.

On April 13, 1989, ACC filed for Chapter 11
reorganization in the State of Arizona. On April 14, 1989, the
FHLBB seized LSL and placed it in conservatorship. Since that
time, the above events and the involvement of the five U.S.
Senators has been widely publicized. According to statements
made to the press by the Senators, they have stated one of the
reasons they got involved with the LSL situation and spoke with
[] and the San Francisco regulators was due to a letter
written to the Senators from [] on March 13, 1987.
[] the accounting firm of Arthur Young and
Associates. The accounting firm had been hired to conduct an
independent audit of LSL, and [] headed the audit. In the
letter, [] discusses the examination by the FHLB
regulators and states the regulators were unreasonable and the
examination lasted longer than necessary. In addition, the

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ALLEGATIONS CONCERNING U.S.
SENATORS ALAN CRANSTON, ET AL
CORRUPTION OF FEDERAL PUBLIC
OFFICIALS-LEGISLATIVE

Senators have stated they relied on a letter written by []
[] the Federal Reserve Board.
The letter was written in February 1985 when [] was a
private consultant. The letter was written to the FHLBB of San
Francisco on behalf of LSL requesting that LSL be exempted from
the 10% direct investment rule. Some of the Senators have
publicly said they met with Keating and his associates and were
simply performing constituent services by meeting with the
representatives from the FHLB of San Francisco and with []
[] from the FHLBB of Washington, DC.

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Included as part of this memorandum are copies of all
FD-302's reflecting interviews with [] and the other FHLB
representatives. Also included are copies of the []
letters, the [] letter. []

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On December 7, 1989, a meeting was held in Phoenix,
Arizona to discuss the status of the preliminary inquiry and
justification for converting this matter to a full investigation.
In attendance at the meeting were the following:

Attorney [] from the Public Integrity Section,
Department of Justice, Washington, DC,

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Supervisor [] FBI Headquarters, Washington,
DC

Assistant United States Attorney (AUSA) []
[] USA Office, Los Angeles, CA

Special Agent (SA) [] Santa Ana, CA

SA [] Phoenix, AZ

SSA [] Phoenix, AZ

SA [] Santa Anna, CA

SSA [] Santa Anna, CA

During this meeting, Attorney [] suggested further
investigation be immediately conducted to further corroborate the

ALLEGATIONS CONCERNING U.S.
SENATORS ALAN CRANSTON, ET AL
CORRUPTION OF FEDERAL PUBLIC
OFFICIALS-LEGISLATIVE

initial allegations. [] suggested the investigation focus upon any and all attempts to influence the FHLBB during the time both []

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Public Integrity Section Attorney [] and AUSA [] declined to render a preliminary prosecutive opinion at this time stating additional investigation was warranted. Both agreed based on the direction of the investigation and the current allegations, the applicable statutes in this matter would continue to be Title 18, U.S. Code, Sections 201 (Bribery), 371 (Conspiracy), 1951 (Hobbs Act), and/or 1505 (Obstruction of Proceedings Before an Agency) and additionally Title 18, U.S. Code, Section 208 (Acts Affecting a Personal Financial Interest).

USA Steven M. McNamee, District of Arizona, Phoenix, also declined to render a prosecutive opinion until he had an opportunity to review the results of the pending investigation.

The following interviews were conducted by the FBI in Washington, DC and San Francisco, CA and are included in this LHM:

- 1 -

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 12/11/89

[redacted] date of birth [redacted]
[redacted] Office of Thrift
Supervision, 580 California Boulevard, San Francisco, CA 94120,
[redacted] residence [redacted] San Carlos, California
94070, [redacted] provided the following information
regarding the meeting he attended in April of 1989 with U.S.
Senators DENNIS DE CONCINI, JOHN MC CAIN, ALAN CRANSTON, JOHN
GLENN, and DON RIEGLE.

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b7C

[redacted] said that [redacted]
the Federal Home Loan Bank Board of San Francisco. [redacted] said
that [redacted]
Federal Savings and Loan Insurance Corporation (FSLIC) and was the
bank board employee who had the responsibility preparing the case
for the recapitalization of the FSLIC and the litigation against
the "forbearance" provision of 1987 Competitive Equality Banking
Act (CEBA Legislation).

[redacted] stated that when he was working with the FSLIC he
had been detailed to Washington, DC from the Federal Home Loan
Board in San Francisco.

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[redacted] said that he has an AB Degree from the University
of Michigan, 1973 and a Juris Doctorate Degree from the University
of Michigan in 1976.

[redacted] said he first became aware of the LINCOLN SAVINGS
AND LOAN ASSOCIATION (LSL) in 1984 as the Savings and Loan
Association that "led the charge" against direct investment
legislation. [redacted]

[redacted] at this time and the board had lost several lawsuits
regarding brokered accounts. [redacted] responsibility was to assist
the board in response to anticipated lawsuits regarding direct
investments. [redacted] said that direct investment had been adopted
by the board in January 1985 and any direct investment prior to

Investigation on 11/28/89 at San Francisco, CA File # 58C-PX-41605
by SA [redacted] and SA [redacted]
SA [redacted] rh Date dictated 12/3/89

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b7C

58C-PX-41605

Continuation of FD-302 of [REDACTED], On 11/28/89, Page 2 b6 b7C

this time would be "grandfathered". [REDACTED] said when he first heard of LSL, it related to their "'charge against' direct investment", LSL was not considered a problem savings and loan association at this time.

[REDACTED] said that in March of 1985 LSL applied for permission to invest 40% of its assets in direct investments. This application was made to the San Francisco 11th District of the Federal Home Loan Board and it was turned down. The Federal Home Loan Board (11th District San Francisco) decision was appealed by LSL to Washington, DC and as a result [REDACTED] worked on this decision and the subsequent denial of it by the Federal Home Loan Board. [REDACTED] said from review of the public documents available (10K's and 10q's) of ACC revealed that the institution was involved in unsafe investment practices. [REDACTED] alluded to GULF BROADCASTING in an unfriendly takeover and their capital was being invested in other risky investments.

[REDACTED] said that also in August 1986 there was a meeting in Washington, DC as a result of the March 1986 examination which had taken approximately seven months. This examination revealed that LSL was at that time a failing thrift. At this time, [REDACTED] was in the Office of Enforcement and Litigation Unit and he assigned an attorney, [REDACTED] to begin the legal work on the application of conservatorship and/or receivership for LSL. b6 b7C

[REDACTED] said the next time he met with officials of AMERICAN CONTINENTAL CORPORATION (ACC)/LSL was in the fall of 1986 when [REDACTED] a New York Attorney, informed the Federal Home Loan Board that they could not review any documents pertaining to LSL unless examiners went through his New York law firm. This led to a meeting in Washington, DC. Those that the attended the meeting were [REDACTED] from San Francisco Federal Home Loan Board, [REDACTED] Washington, DC Federal Home Loan Board, and [REDACTED] As a result of this meeting, there was no resolution with the exception of the fact that the New York law firm would have lawyers at the examination scene and all documents still continued to be reviewed by the New York law firm. [REDACTED] said this, in effect, was as form of discovery that was being utilized by LSL. b6 b7C

[REDACTED] said that in January 1985 or January 1986, the direct investment regulation had a built in sunset rule. The bank board at this time only had one member, [REDACTED] and therefore it could not act. There were two recess appointments to the bank board of [REDACTED] extended the direct

58C-PX-41605

Continuation of FD-302 of [redacted], On 11/28/89, Page 3 b6 b7C

investment regulation with the vote of [redacted] however, had sponsored a rule which significantly weakened the direct investment regulation. [redacted] proposal in essence was if the S & L had sufficient capital, it could invest some money in whatever deemed appropriate. [redacted] said there were several points to the [redacted] proposal and believed that point 11 would have designated inadvertent investments by an S & L as being grandfathered by the proposal. [redacted] further stated that if a thrift believed its direct investments were grandfathered, they would in fact be grandfathered. [redacted] further stated that this proposal would have benefited LSL directly. [redacted] further stated that [redacted] had significant loans with LSL and this proposal would have directly affected [redacted] repayment of the loans. [redacted] would, in fact, have to refinance his acquisition development and construction (ADC) loans. [redacted] said that he recalls LSL was \$600 million in violation of the direct investment rule at the time [redacted] made his proposal to the board.

[redacted] said that he was aware of [redacted] involvement with LSL and informed [redacted] [redacted] stated that it is his understanding that [redacted] then informed Senator WILLIAM PROXMEYER of this [redacted] information. [redacted] said that he later explained in detail to a PROXMEYER aid, [redacted] said that Federal Home Loan Board employee in Washington, [redacted] also helped [redacted] in the briefing of [redacted] [redacted] said that as a result of [redacted] referral to Senator PROXMEYER, several government agencies began an investigation of [redacted] one of which he recalls was the Office of Government Ethics.

[redacted] said that in February or March 1987 he accepted the job in San Francisco [redacted] the FSLIC in its efforts to pass the recapitalization legislation. [redacted] said, however, he did not move to San Francisco until July 1987.

[redacted] said that the bank board held public hearings in March 1987 and again LSL had the preponderance of the testimony in favor of direct investment. [redacted] recalls that [redacted] testified at this meeting as well as LSL representatives.

[redacted] said that on April 2, 1987, [redacted] had a meeting with four U.S. Senators. After the meeting, [redacted] called [redacted] on his car telephone and asked him to stay at the office until [redacted] returned. [redacted] was aware that [redacted] had a meeting on the hill, however, he does not recall if he knew the substance of the meeting.

[redacted] said that he did not discuss with [redacted] any agenda

58C-PX-41605

Continuation of FD-302 of [REDACTED], On 11/28/89, Page 4 b6 b7C

prior to the April 2, 1987 meeting. [REDACTED] said he was aware that Senator DON RIEGLE had set up the April 2, 1987 meeting with the four senators, but believes he had this after the meeting. [REDACTED] said at this time the FSLIC was almost bankrupt and [REDACTED] was attempting to discuss with any senator on the hill the recapitalization of the FSLIC. [REDACTED] also had been attempting to persuade Congress that "the forbearance" clause was bad for the thrift industry. [REDACTED] said that [REDACTED] was aware that the four senators wanted to discuss LSL, however, [REDACTED] believes that [REDACTED] in addition to this wanted to discuss forbearance and the recapitalization of the FSLIC. [REDACTED] said he does not know if [REDACTED] had been instructed to come to the meeting alone without any member of his staff. [REDACTED] also does not believe that [REDACTED] knew the number of senators that were to be present.

[REDACTED] said that upon [REDACTED] return to the bank board he met with him [REDACTED] [REDACTED] said that he did not take any notes of this meeting. [REDACTED] told him that four senators and identified Senators CRANSTON, GLENN, DE CONCINI, MC CAIN as being present. [REDACTED] said that the senators wanted him to "yank the direct investment regulation in return for LSL making home loans". [REDACTED] said that the senators were concerned about the length of the exam process, however, [REDACTED] said he could not respond because he was unfamiliar with the examination of LSL. Senator GLENN seemed to be particularly upset with the length of the examination. [REDACTED] said he could not respond to specific questions regarding LSL because he supervised over 3,000 thrifts. [REDACTED] said that the senators were also concerned about the vendetta of the Federal Home Loan Board against LSL. [REDACTED] responded by saying that he never met CHARLES KEATING. [REDACTED] further stated that he had confidence in the San Francisco office of the Federal Home Loan Bank and did not believe that they had been unfair in the examination of LSL. [REDACTED] said that [REDACTED] was upset with the meeting and said that, "you guys won't believe what they want". [REDACTED] said that [REDACTED] was "amazed, bemused, and upset" with the April 2, 1987 meeting. [REDACTED] informed [REDACTED] that he had agreed for the senators to meet with the San Francisco Federal Home Loan Bank officials, including [REDACTED]

[REDACTED] said that between April 2 and 9, there were numerous scheduling telephone calls with the San Francisco people [REDACTED] said that DENNIS DE CONCINI or his office was the entity that agreed to the meeting date and its location which was Senator DE CONCINI's office.

58C-PX-41605

Continuation of FD-302 of [REDACTED], On 11/28/89, Page 5

b6
b7C

[REDACTED] said that the meeting occurred as scheduled by Senator DE CONCINI's office on April 9, 1987 in Senator DE CONCINI's office. The five U.S. Senators present were DE CONCINI, JOHN MC CAIN, ALAN CRANSTON, JOHN GLENN, and DON RIEGLE.

[REDACTED] said that in regards to Senator CRANSTON, he did not attend the entire meeting, however, on one occasion he "stuck his head in the door" and stated that he agreed with the topic of discussion.

[REDACTED] said that he took detailed notes and attributed his experience on a college debating team as assisting him in the taking of these notes. [REDACTED] said he does not recall if he rough-drafted or dictated into a dictaphone what became his typewritten notes to [REDACTED] said he is, however, certain he did not type his memo that ultimately was sent to [REDACTED] said that [REDACTED] requested the typed version and [REDACTED] further told [REDACTED] that he [REDACTED] sent a copy of these notes to Senator RIEGLE's office. [REDACTED] said there was nothing to add or to delete from these notes.

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[REDACTED] volunteered the original typed notes and memo to [REDACTED] dated April 10, 1987 and his handwritten notes taken as the meeting unfolded. [REDACTED] additionally initialed and dated each page of these notes. The notes have been exhibited as evidence.

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FEDERAL BUREAU OF INVESTIGATION

Date of transcription 12/5/89

[redacted] FEDERAL HOME LOAN BANK OF SAN FRANCISCO (FHLB-SF), 120 Kearny, San Francisco, California, telephone [redacted] was advised as to the identity of the interviewing agents and the purpose of the interview at which time CIRONA advised as follows:

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[redacted] advised his current position [redacted] FHLB-SF and has been in that position since [redacted] His date of birth is [redacted] and he was born in Brooklyn, New York. He currently resides at [redacted] San Francisco, California.

Prior to [redacted] the FHLB-SF, [redacted] was involved in the thrift industry in Rochester, New York. He [redacted] ROCHESTER, NEW YORK.

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[redacted] stated [redacted] the FHLB-SF he basically has the same duties [redacted] any commercial bank with the exception of the fact the FHLB is a wholesale bank. As a wholesale bank they sell money to member institutions and conduct a variety of correspondence services. The area which is covered by the FHLB-SF is called the 11th District and includes California, Arizona, and Nevada.

[redacted] advised as a general rule [redacted] FHLB-SF he does not get involved in the examination process. Normally after an exam is completed he and his staff will review the results of the exam. At that point, if problems exist they will decide on what action to take. The bank may request the institution to make a variety of changes which can be accomplished by a request from the FHLB-SF. If there are major problems and he and his staff recommend receivership or conservatorship, that final decision must be made by the FEDERAL HOME LOAN BANK BOARD in Washington D.C.

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[redacted] confirmed he is well aware of past examinations of LINCOLN SAVINGS AND LOAN. He further stated he is aware of the holding company which owns LINCOLN SAVINGS AND LOAN, AMERICAN CONTINENTAL CORPORATION (ACC). He is also familiar with the chairman of ACC, CHARLES KEATING, JR. He believes he met CHARLES KEATING on one occasion at a luncheon-reception in 1986 held by the CALIFORNIA LEAGUE OF SAVINGS AND LOAN INSTITUTIONS. To his knowledge he has not spoken with nor met with CHARLES KEATING at

Investigation on 11/28/89 at San Francisco, CA File # 58C-PX-41605

by SA [redacted] SA [redacted]
SA [redacted] GKM/cpt Date dictated 12/4/89

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58C-PX-41605

Continuation of FD-302 of [REDACTED], On 11/28/89, Page 2

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b7C

any other occasion since that time. Even though an exam was taking place in 1986 during the time he met KEATING, there were not attempts by KEATING people or officers of LINCOLN SAVINGS AND LOAN to meet with or speak directly with [REDACTED] stated he would have been happy to meet with them however they did not request any meetings.

[REDACTED] confirmed he was in attendance on April 9, 1987, in a meeting held in the office of Senator DENNIS DECONCINI in Washington D.C. On April 8, 1987, he contacted his office in San Francisco and received a message from his secretary stating he was to report to the office of the FEDERAL HOME LOAN BANK BOARD [REDACTED] on April 9, 1987. At this particular time he was in New York City conducting business. The message continued to say [REDACTED] and others would be meeting with a group of United States senators in DECONCINI's office the evening of April 9, 1987, and the subject would be the LINCOLN SAVINGS AND LOAN exam.

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[REDACTED] recalls arriving at the bank board at approximately 5:00 p.m. on April 9, 1987. At that time he observed [REDACTED]

[REDACTED] having a meeting regarding the scheduled meeting with the senators. At the time he arrived the plans had already been formulated for [REDACTED] to give the initial presentation about the exam. [REDACTED] were to answer any additional questions the senators may ask. [REDACTED] specifically recalls they felt the purpose of the meeting with the senators was simply to justify the length of the exam and to explain their position and possibly their findings in the exam.

[REDACTED] advised the meeting was basically started as a lecture from Senator DECONCINI. The lecture changed the original tone and purpose of the meeting. [REDACTED] felt DECONCINI and the senators were parroting what someone from the KEATING organization had previously briefed them regarding the LINCOLN SAVINGS AND LOAN exam.

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b7C

At this point in the interview, [REDACTED] presented a copy of the typed transcript from the notes of [REDACTED]. He confirmed [REDACTED] took these notes during the April 9,

58C-PX-41605

Continuation of FD-302 of [REDACTED], On 11/28/89, Page 3

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b7C

1987, meeting with the five U.S. senators. He confirmed he had on many previous occasions reviewed the transcripts which resulted from [REDACTED] notes. He confirmed he felt they were extremely accurate and that he could add no additional information regarding what was discussed at the meeting. [REDACTED] agreed to again review the transcript and to sign and date each page verifying its accuracy. [REDACTED] emphasized he stands behind the transcripts.

[REDACTED] continued stating his personal feelings of the meeting with United States senators was that he was austruck. He felt it was extraordinary that five high powered United States senators were meeting together on behalf of one constituent. To the best of his knowledge this had never happened before and most likely would never happen again. He advised it was obvious during the meeting the senators did not come to hear the examiners report on the findings of the examination. [REDACTED] felt they were summoned by the senators to hear the senators displeasure and [REDACTED] and the others ended up defending their positions in the exam.

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[REDACTED] feels the entire situation regarding the report, which was eventually sent to the FEDERAL HOME LOAN BANK BOARD after [REDACTED] is also extremely extraordinary. The report recommending receivership was submitted to the bank board in May of 1987. At that point, [REDACTED] and the only other board member was [REDACTED]. [REDACTED] feels that it is understandable that [REDACTED] did not want to act on the recommendation as one of his last acts [REDACTED]. In addition, he understood [REDACTED] position that he did not want to act on the recommendation until [REDACTED]. [REDACTED] realized he would be working closely with [REDACTED] and felt it was necessary to obtain his input prior to making a decision.

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[REDACTED] advised in July of 1987, [REDACTED] The FEDERAL HOME LOAN BANK BOARD. By the end of July 1987, [REDACTED] had already met with KEATING and his associates regarding the LINCOLN examine. [REDACTED] believes [REDACTED] then again met with KEATING and associates in August of 1987. [REDACTED] stated the interesting thing about the [REDACTED] meetings with KEATING was that [REDACTED] seemed to be very open minded in regarding

58C-PX-41605

Continuation of FD-302 of [redacted], On 11/28/89, Page 4*

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b7C

talking with KEATING and his associates however [redacted] made no attempts whatsoever to meet with [redacted] or any of his examiners regarding the examination.

[redacted] added that in August of 1987 [redacted] who was [redacted] who was [redacted] met with CHARLES KEATING. Also during that period of time, [redacted] was hired and [redacted] the Office of Regulatory Policy Oversight and Supervision (ORPOS). Also in August of 1987, [redacted] instructed [redacted] to take no supervisory action or continue discussions with LINCOLN personnel regarding the LINCOLN SAVINGS AND LOAN exam until they were authorized by the bank board in Washington D.C. [redacted] emphasized that at this point they felt they had lost total authority on the LINCOLN exam.

[redacted] advised all of the above events seemed to be extremely extraordinary to him and unprecedented at least during the time [redacted] the FHLB-SF.

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[redacted] added during the time the examination was taking place and immediately thereafter he was not contacted by any KEATING associate regarding the exam with possibly one exception. [redacted] had known one [redacted] during the time he and [redacted] were both in the thrift industry. In late 1987, [redacted] contacted [redacted] and stated he had just gone to work for CHARLES KEATING and wanted to meet with [redacted] had lunch with him at which time [redacted] emphasized the fact he had been hired by KEATING to restructure LINCOLN SAVINGS AND LOAN to again being a traditional thrift. In other words, they were attempting to liquidate their direct investments and would return to the business of making home loans. At that point, [redacted] was surprised the attempt was to be made and told [redacted] he did not feel it was possible. [redacted] encouraged [redacted] to make the effort to restructure LINCOLN SAVINGS AND LOAN. [redacted] added apparently that arrangement did not work out because in January or February of 1988 [redacted] left that position with LINCOLN SAVINGS AND LOAN. [redacted] also feels [redacted] was maintained on the payroll of LINCOLN SAVINGS AND LOAN for quite some time after his departure so as to keep him quiet regarding LINCOLN's procedures and activities.

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 12/7/89

[redacted] date of birth [redacted]
 [redacted] Office of Thrift Supervision, 580 California
 Street, San Francisco. 94120, telephone number [redacted]
 residence [redacted] California, 94563, telephone number
 [redacted] date of birth [redacted] provided the
 following information regarding his meeting in April, 1989, with
 United States Senators, DON RIEGLE, DENNIS DE CONCINI, JOHN
 MC CAIN, JOHN GLENN, and ALAN CRANSTON regarding Lincoln Savings
 and Loan Association (LSLA) of Irvine, California.

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[redacted] said in 1987 [redacted]
 Agency Group for the Federal Home Loan Board (FHLB) and part of
 his management function was review of 215 Saving and Loan
 Associations (SLAs), one of which was LSLA. [redacted] said that
 the 215 SLAs that he supervises are in the states of California,
 Arizona, and Nevada.

[redacted] said that he first met CHARLES KEATING in
 December of 1986, with [redacted] for American
 Continental Corporation, [redacted] said that [redacted]
 had been calling frequently concerning the examination of the
 LSLA. [redacted] said at the time that he was to meet in
 Washington, D.C., in December of 1986, he was still attempting to
 get to know his new job as he had taken a position with the FHLB
 on August 20, 1986. [redacted] said that on his way to
 Washington, D.C., he had the opportunity to review a 200 page
 draft of the examination of the problems associated with LSLA.

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Prior to going to Washington, D.C., in December of
 1986, [redacted] had become a nuisance because of all his numerous
 telephone calls regarding the examination of LSLA. [redacted]
 during these telephone calls had no specific charges concerning
 the examiners only that they were taking too long to complete the
 examination. The examiners at this time were [redacted] and
 [redacted] implied that they were not being fair
 and that LSLA was being persecuted. [redacted] said again [redacted]
 could not specifically point to any particular problem concerning
 the examiners.

[redacted] said that [redacted] told him he was glad that
 [redacted] had just arrived at the FHLB because "they could work
 with him". [redacted] said that the FHLB "team was incompetent, made
 errors in arithmetic, their appraisals were absurd and flawed on
 their face". [redacted] said he did not take notes when [redacted]

Investigation on 11/28/89 at San Francisco, California File # 58C-41605by SA [redacted] SA [redacted]
SA [redacted] mbh Date dictated 12/3/89b6
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58C-41605

Continuation of FD-302 of [REDACTED]

, On 11/28/89

, Page 2

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b7C

called because he considered [REDACTED] to be just another institution that was complaining.

[REDACTED] said that the August, 1986, meeting in Washington, D.C., was a regularly scheduled meeting to discuss the findings of the examination of ISLA. Those present were [REDACTED] (staff members of the Bank Board), [REDACTED] staff member of the Bank Board. From San Francisco were [REDACTED]

[REDACTED] said that this meeting had been scheduled before he had been hired.

[REDACTED] said that from the very beginning [REDACTED] appeared to be an apologist for ISLA.

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[REDACTED] said as a result of the meeting in August, 1986, in Washington, D.C., he had been made aware of ISLA. [REDACTED] further said that he realized that Lincoln was one of the two important cases at the FHLB in San Francisco was involved in. The other was America FCA.

[REDACTED] said that the next contact he had with an official of ISLA was in October of 1986, when [REDACTED] came to San Francisco. During the meeting with [REDACTED] he just continued his complaining concerning the examination of ISLA.

[REDACTED] said the first time that he met CHARLES KEATING was in December of 1986 when KEATING and other officials from ACC met at the FHLB office in San Francisco (580 California Street). The meeting was called at the request of ISLA in that the examination of ISLA was concluding. [REDACTED] said in fact the "closing meeting" had been held in Phoenix, Arizona. At this closing meeting, no one authority had appeared on behalf of ISLA and as a result the second meeting was scheduled to accommodate ISLA. [REDACTED] said that he believes the only official of ACC and ISLA that attended the "closing meeting" was [REDACTED]

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During the December, 1986, meeting in San Francisco, KEATING accused the government of "suckering him with deregulation and now the government was attempting to re-regulate". KEATING said he wanted to "get along with the regulators", but they "continued

58C-41605

Continuation of FD-302 of [REDACTED]

, On 11/28/89

, Page 3

b6
b7C

to change the rules in mid-stream". [REDACTED] said he attempted to explain the problems that had been found as a result of the examination with the management of ISLA. [REDACTED] in fact, said these findings would have been discussed at the "closing meeting", but no one of authority from ACC or ISLA was present. [REDACTED] said that as a result, the December, 1986, meeting in San Francisco everyone agreed to reschedule the "closing meeting" that had already occurred in Phoenix. [REDACTED] said this was done in order to facilitate the complaints of KEATING.

[REDACTED] said that [REDACTED] of the FHLB in Washington, D.C., apparently had a meeting on April 2, 1987, with the United States Senators JOHN MC CAIN, ALAN CRANSTON, JOHN GLENN, and DENNIS DE CONCINI. [REDACTED] said that he did not receive and advance warning from [REDACTED] of this meeting, however, [REDACTED] called him on April 4, or April 5, 1987, to inform him [REDACTED] that he was to meet in Washington, D.C., with these senators. [REDACTED] said he did not know [REDACTED] meeting occurred until after the fact when [REDACTED] informed him of a second meeting with these United States Senators. [REDACTED] said that [REDACTED] stressed that the meeting with the United States Senators was confidential. [REDACTED] further informed [REDACTED] that [REDACTED] would be the people with whom the senators would meet concerning ISLA.

[REDACTED] said that [REDACTED] briefly discussed [REDACTED] meeting in detail with the Senators. [REDACTED] said that they wanted him to "let Lincoln out of the direct investment regulation and in return Lincoln would make home loans". [REDACTED] specifically said that United States Senators CRANSTON, MC CAIN, DE CONCINI, and GLENN attended the April 2, 1987, meeting with [REDACTED]. [REDACTED] also said that [REDACTED] told him that [REDACTED] was not knowledgeable regarding the details of the ISLA examination and would arrange for the senators to meet with the San Francisco regulators who would answer their questions.

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[REDACTED] said that after [REDACTED] call he "smelled a rat" because the findings were confidential yet he had been instructed to meet and discuss these findings with United States Senators. [REDACTED] said that he called [REDACTED] and informed him that he was to attend this meeting and that it was confidential. [REDACTED] said that he stressed to [REDACTED] that the meeting was confidential and, in fact, told him not to tell his supervisor.

58C-41605

Continuation of FD-302 of [REDACTED]

, On 11/28/89

, Page 4

b6
b7C

[REDACTED] said that [REDACTED] during the telephone call to him [REDACTED], expressed his personal feelings of "shock that the senators proposed a deal".

[REDACTED] said that the April 9, 1987, meeting occurred in the Hart Building and in the office of Senator DENNIS DE CONCINI. [REDACTED] said that prior to going to this meeting there was a "pre-meeting" at the Park Room where he [REDACTED]

[REDACTED] discussed the briefing they were to give the senators. [REDACTED] said that [REDACTED] was also present and had informed the four regarding her depositions taken and the apparent "file stuffing" conducted by LSIA. [REDACTED] said that he did not see [REDACTED] prior to the meeting with the senators or have any form of communication with [REDACTED] said the purpose of the "pre-meeting" was to enable them to be ready to explain the length of the examination of LSIA. [REDACTED] was selected to give the presentation because he was the junior of the four present. [REDACTED] prepared notes in preparation for his presentation to the senators. [REDACTED] said that he took no notes during the "pre-meeting" and took no notes during the actual meeting with the five senators.

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[REDACTED] said that the meeting with the five United States Senators occurred between 6:00 PM, and 8:00 PM, at Senator DE CONCINI's office and prior to the meeting [REDACTED] was present and acted as a "hostess", but was not present during the discussion with the five senators. [REDACTED] said that during the two hour meeting the senators then voted on occasion and left Senator DE CONCINI's office and at this time they [REDACTED] were in the office with [REDACTED] [REDACTED] said that the senators present were RIEGLE, DE CONCINI, MC CAIN, GLENN, and CRANSTON. [REDACTED] said that [REDACTED] made a "brief appearance" saying that he "was in agreement with the concerns and views of the other senators". [REDACTED] estimates that CRANSTON made the brief appearance and statement one half hour after the meeting started. [REDACTED] said that Senator DE CONCINI acted as the host and Chief spokesman for the group stating that Senator RIEGLE had been invited because of his banking experience. [REDACTED] said that Senator DE CONCINI apparently had a monologue prepared concerning LSIA which ended with the offer of "Lincoln making more home loans if the direct investment regulation would be dropped by the regulators".

58C-41605

Continuation of FD-302 of [REDACTED], On 11/28/89, Page 5 b6 b7C

[REDACTED] said Senator DE CONCINI had documents with him and, in fact, passed around an [REDACTED] letter which he showed to [REDACTED] and the others [REDACTED]. [REDACTED] said this letter indicated that "the Federal Home Loan Board examination had been adversarial and extreme in length". [REDACTED] said that Senator DE CONCINI had other documents with him, but he [REDACTED] does not recall what they were. [REDACTED] also said that Senator DE CONCINI also criticized appraisals that had been conducted by the FHLB.

[REDACTED] said the senators did not want to hear answers concerning the examination they just "wanted the San Francisco people off the back of ISLA".

[REDACTED] said that he recalls [REDACTED] taking copious notes and he [REDACTED] reviewed these notes prior to the interview with the Federal Bureau of Investigation (FBI). [REDACTED] said that he reviewed [REDACTED] notes within three days after the meeting and when he reviewed these note they were typed. [REDACTED] said that he characterized [REDACTED] notes as very accurate and could not now add or delete to them.

[REDACTED] said that after the April, 1989, meeting with the five senator, he had no other contact with them or anyone on their staff. [REDACTED] said, however, in the Summer of 1989, he was in Washington, D.C., on a separate matter and he went into the office of Senator CRANSTON and talked with an aide, [REDACTED]. She said, "Is it possible that CHARLIE KEATING and those people have done something illegal". [REDACTED] said this is only the contact he has had with anyone associated with the senators or their staff.

[REDACTED] said that in August of 1986, after it had been made public that he had accepted a position with the FHLB in San Francisco, [REDACTED] was approached by [REDACTED] newly formed company, Association of Thrift Holding Companies, and offered her a job. [REDACTED] said his wife was an attorney at the Bank Board in Washington, D.C., and her area of expertise was Thrift Holding Companies. [REDACTED] mentioned to his wife that a "member" could use a representation in California. [REDACTED] later identified the "member" as the ISLA. [REDACTED] said that [REDACTED] continued to call his wife, but she was uneasy because of his [REDACTED].

58C-41605

Continuation of FD-302 of [REDACTED]

, On 11/28/89

, Page 6

b6
b7C

position as a regulator and eventually she asked [REDACTED] to stop calling her.

[REDACTED] said that in the Fall of 1987, or early 1988, he received a telephone call from [REDACTED] of [REDACTED]. During this telephone call, [REDACTED] told [REDACTED] about ISLA. [REDACTED] responded by saying that CHARLIE KEATING was "well known up here". [REDACTED] further told [REDACTED] that the Bank Board was considering taking the supervision of ISLA away from the Eleventh District. [REDACTED] responded by saying, "There are things you don't know, they are doing it for your own good and he's as wired as you can get".

[REDACTED] said that after the Eleventh District had been removed as having supervisory authority of ISLA, [REDACTED] again warned [REDACTED] about KEATING's influence. [REDACTED] said this meeting was at a Bank Board meeting in Washington and would have been in early 1988. [REDACTED] said during the Summer of 1988, at his residence [REDACTED] again initiated the warning to [REDACTED] by saying, "There are things you don't know". This discussion was in the presence of [REDACTED] who is with the Farm Credit Administration in Mc Clean, Virginia. [REDACTED] said there was a meeting with [REDACTED] in Washington, D.C., in May of 1988, when [REDACTED] again confronted [REDACTED] about the influence of CHARLES KEATING. [REDACTED] said he could not more closely fix the telephone calls and meetings, however, he said the first telephone call with [REDACTED] was after he had moved to San Francisco.

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[REDACTED] reviewed the typed notes of [REDACTED] taken on April 9, 1987, of the meeting between the FHLB San Francisco personnel and Senators CRANSTON, DE CONCINI, GLENN, MC CAIN, and RIEGLE. [REDACTED] initialed and dated each page of these notes. [REDACTED] stated he could not make any changes. These notes have been exhibited as evidence.

- 1 -

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 12/11/89

[redacted] an attorney with the law firm of PILLSBURY, MADISON, AND SUTRO, West 535 Montgomery Street, #1594, San Francisco, California, [redacted] residence [redacted] Orinda, California 94563, [redacted] provided the following information regarding an employment offer made to her by AMERICAN CONTINENTAL CORPORATION (ACC) of Phoenix, Arizona.

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[redacted] said that in the spring or summer of 1986, [redacted] offered her employment with ACC.

[redacted] said that during the spring and summer of 1986, she was employed by the Federal Home Loan Board as an attorney in the Office of General Counsel and her expertise was savings and loan association holding companies. Prior to [redacted] making the job offer to her, she had frequent meetings with him in her office regarding holding companies. She and her husband, [redacted] had accepted a dinner invitation at the residence of [redacted] associate prior to the job offer as well.

The actual job offer occurred during a luncheon meeting when [redacted] said, "A member who might need representation in San Francisco" is interested in employing her. She inquired as to the identity and [redacted] said it was ACC and it owned LINCOLN SAVINGS AND LOAN ASSOCIATION (LSL).

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[redacted] said that prior to [redacted] making the job offer, her husband's leaving the employment of the Office of the Comptroller of the Currency and going to work for the Federal Home Loan Board in San Francisco had been in the press in Washington, DC. [redacted] discussed with [redacted] the conflict of interest that would arise since her husband would be the regulator of thrifts in California. [redacted] accordingly declined the job offer and made no further inquiries.

[redacted] said that after the luncheon meeting, [redacted]

Investigation on 11/28/89 at San Francisco, CA File # 58C-PX-41605
by SA [redacted] and SA [redacted]
SA [redacted] /rh Date dictated 12/5/89

b6
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58C-PX-41605

Continuation of FD-302 of , On 11/28/89, Page 2

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b7C

continued to call her asking for additional meetings and generally became a "pest" on the telephone. finally instructed to not call her any more.

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FEDERAL BUREAU OF INVESTIGATION

Date of transcription 12/5/89

[redacted] Agency Group, FEDERAL HOME LOAN BANK OF SAN FRANCISCO (FHLB-SF), 580 California Street, San Francisco, California, telephone [redacted] was advised as to the identity of the interviewing agents and the purpose of the interview at which time he advised as follows:

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[redacted] advised his current address is [redacted] Richmond, California, telephone [redacted] During the week, [redacted] resides with his in-laws in the city of San Francisco and can be reached at telephone number [redacted]

[redacted] advised he began his appointment with the FHLB-SF in March of 1983 as an Assistant Supervisory Analyst. He was later promoted to Acting Supervisory Agent and then Supervisory Agent.

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[redacted] confirmed that in 1986 he was somewhat involved with the examination of LINCOLN SAVINGS AND LOAN of Irvine, California. At that time he was the Acting Supervisory Agent and reported to [redacted] He was later promoted to Supervisory Agent during the time the exam was still being conducted. As Supervisory Agent he was in charge of a team of analysts who would receive reports from various examinations being conducted in the 11th District of the FHLB. The bank was divided up into two separate divisions. Those divisions were the Supervisory Division and the Examination Division. The Examination Division maintained the personnel who would conduct on-site examinations of institutions. Their reports and conclusions from an examination would then be submitted to the Supervisory Division for their review and recommendations. There are a number of supervisory agents assigned to the FHLB-SF and each were assigned approximately 20 cases. In addition to monitoring 20 institutions, they would review and approve new applications.

[redacted] advised regarding the LINCOLN SAVINGS examination it was initially assigned as a regular case to Supervisory Agent [redacted] In early to mid 1986 the bank hired some additional individuals to be Supervisory Agents and they reassigned various cases. At that time the LINCOLN case was assigned to [redacted] At that point the Supervisory Agents would report their findings and conclusions to the Chief Supervisory Agent. The Chief Supervisory Agent would make recommendations and take action based on the report. Any drastic

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Investigation on 11/29/89 at San Francisco, CA File # 58C-PX-41605

by SA [redacted] SA [redacted]
SA [redacted] GKM/cpt Date dictated 12/2/89

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b7C

58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 11/29/89, Page 2

b6
b7C

decisions to be made regarding conservatorship or receivership of an institution was made by the FHLBB in Washington D.C.

In March or April of 1987, the FHLB-SF changed its structures and duties regarding Supervisory Agents. Prior to this time the examiners would only submit final reports to the Supervisory Agents for review. Beginning in March or April of 1987, the Supervisory Agents maintained more of a "hands on" approach and learned about problems in an exam during the course of the examination. In other words, they monitored the examination as it took place rather than receive only a final report.

[REDACTED] recalls in 1986 during the exam of LINCOLN, they heard various problems existed regarding the underwriting of loans and the lack of proper documentation in loan files. In addition, they heard of problems with direct investments and investments in high risk securities. At that point they requested files from the examination be sent to the bank for review by the Supervisory Agent. [REDACTED] recalls in reviewing the exam files it was very clear this was a unique situation and many problems existed with LINCOLN which had not been addressed in other examinations or institutions. The LINCOLN SAVINGS AND LOAN examination had isolated problems which had not existed in other institutions. As mentioned, there were major underwriting problems to include no credit applications. There appeared to be no loan manual or rules and regulations being followed by the loan department of LINCOLN SAVINGS AND LOAN.

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Due to the above problems they then set up a meeting in July of 1986 with the management of LINCOLN SAVINGS AND LOAN. [REDACTED] attended that meeting along with other examiners. Also in attendance was MR. CHARLES KEATING. KEATING was representing the holding company, AMERICAN CONTINENTAL CORPORATION. [REDACTED] recalled being surprised that KEATING attended the meeting due to the fact he was not a member of the Board of Directors of LINCOLN SAVINGS AND LOAN. The meeting was held in Irvine, California, at the offices of LINCOLN SAVINGS AND LOAN. KEATING seemed to take charge of the meeting and made it very clear in a very disruptive fashion that he felt there was a "vendetta" by the bank board toward the management of LINCOLN SAVINGS AND LOAN. This was the first time [REDACTED] had met CHARLES KEATING and recalls KEATING

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58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 11/29/89, Page 3

b6
b7C

being very upset. KEATING was under the impression this July 1986 meeting was the "final exam" meeting. Traditionally a meeting would be held with the institution upon the conclusion of an exam wherein different findings and recommendations would be reviewed. KEATING was apparently, as mentioned, under the impression this July 1986 was the final meeting. KEATING emphasized he felt a vendetta existed and stated various reasons for his belief. Among those reasons was the fact LINCOLN SAVINGS AND LOAN had recently applied to the San Francisco FHLB to increase their direct investments. The FHLB-SF had denied that request. KEATING and LINCOLN then appealed to the FHLBB in Washington D.C. who also denied the request. KEATING felt there was a vendetta also due to a denial of a request to have subordinate debt added to their total capital figure. In addition, as part of the assessment to determine if subordinate debt should be added to their capital requirement, the FHLB-SF had requested LINCOLN submit a comprehensive business plan. KEATING also felt this request was unreasonable.

The above meeting was actually called by [REDACTED] who was the individual in charge of the exam. The meeting was called for the purpose of discussing the findings and problems to date. [REDACTED] recalls KEATING ranting and raving and being very upset about his belief of a "vendetta" and in fact personally threatened [REDACTED] with a liability lawsuit.

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[REDACTED] advised an additional meeting took place where he was present along with KEATING and his associates either in December of 1986 or January of 1987. The LINCOLN exam had actually terminated at the end of October of 1986, and from that point until December 1986 or early 1987 various attempts had been made to get LINCOLN management to respond to problems. [REDACTED] recalls problems existed with asset evaluation and underwriting of loans. On March 9, 1987, all the responses to the above requests were finally received from LINCOLN. Traditionally, those responses are then reviewed and a final report submitted to the bank. [REDACTED] recalls a final report was submitted to the FHLBB in Washington D.C. in April of 1987. He recalls the final report recommending conservatorship or receivership of LINCOLN SAVINGS AND LOAN. [REDACTED] emphasized problems with management responding to the above requests and an attempt to solve problems was the main reason the exam lasted as long as it did without the final report being submitted.

58C-PX-41605

Continuation of FD-302 of [REDACTED], On 11/29/89, Page 4

b6
b7C

[REDACTED] confirmed the fact he was involved in a meeting with other San Francisco bank members and five U.S. senators in Washington D.C. on April 9, 1987. He was notified of the meeting approximately two days before the 9th by [REDACTED]. [REDACTED] told him the meeting was to remain confidential and he was not to discuss the fact he was attending the meeting with anyone including his immediate supervisor [REDACTED]. [REDACTED] was told the meeting was to be with some United States senators however at the time he did not know which senators. He was told to attend a briefing on the LINCOLN exam at the bank board prior to the meeting with the senators. [REDACTED] flew back to Washington D.C. with [REDACTED] to attend both meetings. Initially [REDACTED] was not told to prepare any notes or outline regarding the meeting.

Upon arriving in Washington D.C., as mentioned, the meeting was held at the office of the Federal Home Loan Bank Board. In attendance was [REDACTED]. The purpose of the meeting was to discuss strategy in presenting the facts of the exam to the United States senators. During the meeting it was decided [REDACTED] would make an initial presentation to the senators. At that point [REDACTED] did prepare an outline to be used in the meeting. [REDACTED] did not keep the outline after the meeting with the senators. He does recall all of the bank members felt the purpose of the meeting was to inform the senators as to the status of the exam and possibly to defend the length of the exam.

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[REDACTED] advised a meeting did in fact take place in the office of Senator DECONCINI on April 9, 1987. Present at the meeting were DECONCINI, RIEGLE, GLENN, MCCAIN and for a short time Senator ALAN CRANSTON. CRANSTON actually stepped in momentarily and stated he concurred with the views of all the other senators. He stated he had to attend a vote and would not be able to stay at the meeting.

At this point in the interview [REDACTED] made reference to the detailed notes and transcripts of those notes which had been taken by [REDACTED]. He advised he had reviewed the transcripts many times. Most recently he had again reviewed the transcripts on November 26, 1989. [REDACTED] presented a copy of the notes which he had reviewed and agreed to initial each page

58C-PX-41605

Continuation of FD-302 of [REDACTED], On 11/29/89, Page 5

b6
b7C

verifying their accuracy. [REDACTED] emphasized the notes of [REDACTED] were extremely accurate and he could add no more as to the conversation which took place with the senators.

In addition to the above, [REDACTED] added DECONCINI seemed to take the lead from the beginning of the meeting. DECONCINI appeared to present himself as a very knowledgeable individual in real estate in Arizona.

Regarding the request of DECONCINI that LINCOLN SAVINGS AND LOAN be granted "forbearance" from the direct investment regulation, [REDACTED] interpreted that as a request for the FHLB not to apply the capital increment which results from being over the direct investment limits. He interpreted that to be a request to postpone that increment until a lawsuit had been decided. [REDACTED] believes the formula for adding the increment is 10% of the amount over the direct investment limit. This amount is then added to the thrift's capital requirement.

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[REDACTED] added DECONCINI and the other senators appeared to be advocates of LINCOLN SAVINGS AND LOAN as an institution rather than interested senators wanting to hear the facts of an exam. The senators seemed to be lobbying on behalf of LINCOLN SAVINGS AND LOAN. The meeting basically became one of the examiners explaining their position to the senators and defending themselves regarding those positions rather than a meeting of simply presenting the facts and answering questions from the senators.

[REDACTED] advised at the conclusion of the meeting the members of the FHLB-SF then briefly discussed the meeting and agreed everyone was surprised the senators were together on one issue. They further discussed the fact there appeared to be no dissension among the senators. [REDACTED] advised they were unable to comply with [REDACTED] outline during the meeting however they did eventually discuss most of the points on the outline. He added it was interesting once the criminal referral aspect of the conversation was mentioned the mood of the senators definitely changed. [REDACTED] advised he did not feel the senators were attempting to "cut a deal" on behalf of LINCOLN but rather were defending the position of LINCOLN in its complaints against the examiners.

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58C-PX-41605

Continuation of FD-302 of [REDACTED], On 11/29/89, Page 6*

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[REDACTED] advised he did not brief anyone after the meeting and basically went directly back to San Francisco. He has had no further contact with any senator or staff members of the senators.

ALLEGATIONS CONCERNING U.S.
SENATORS ALAN CRANSTON, ET AL
CORRUPTION OF FEDERAL PUBLIC
OFFICIALS-LEGISLATIVE

The following attachments were obtained by the FBI
through the course of its investigation:



A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Arthur Young

1700 Valley Bank Center
Phoenix, Arizona 85073
Telephone: (602) 256-4831

March 17, 1987

The Honorable John McCain
United States Senate
210 Hart Senate Building
Washington DC 20510

Dear Senator McCain:

Certain questions have been raised by you and others with regard to Lincoln Savings, a California-chartered savings and loan association, which is wholly owned by American Continental Corporation (ACC) and its experience with the Federal Home Loan Bank Board (FHLBB). The following sets forth such questions and what I believe are objective answers to the questions.

1. What is Lincoln Savings' financial condition at December 31, 1986 and its operating results for the year then ended?

My firm, Arthur Young & Company, examined the financial statements of Lincoln Savings at and for the year ended December 31, 1986, and issued an unqualified opinion dated February 17, 1987 on such financial statements. Lincoln Savings' consolidated statement of financial condition at December 31, 1986 reflected stockholder's equity, as determined in accordance with generally accepted accounting principles (GAAP), of \$193,024,000 (or approximately 6.8% of its FSLIC-insured deposits) at that date. Its consolidated statement of operations reflected earnings before income taxes of \$81,689,000 and net earnings of \$48,958,000 for the year ended December 31, 1986.

2. In determining its earnings and stockholder's equity, did Lincoln Savings make provisions for potential losses?

Yes, the above-cited stockholders' equity is after valuation allowances of approximately \$28,000,000 at December 31, 1986 and the pretax earnings for the year are net of provisions for losses of \$32,500,000. In the course of my firm's examination of Lincoln Savings' financial statements, the firm tested the valuation allowances and the bases therefor and concluded such allowances were fairly stated in all respects material to Lincoln Savings' financial statements taken as a whole.

AY5-000550

March 17, 1987
The Honorable John McCain
page 2

3. Is the Federal Home Loan Bank Board currently conducting an examination of Lincoln Savings?

Yes, the FHLBB began an examination in approximately March 1986, and as of this date has not yet concluded such examination. Accordingly, such examination has been ongoing for approximately one year. One team of examiners conducted procedures from March to May 1986, and another group conducted comparable, and in many instances identical, procedures during the period August to October 1986. Since October, the FHLBB continues to seek additional information from Lincoln Savings, some of which has been previously provided to and been reviewed by the field examiners.

4. In your experience, is the duration of the FHLBB examination unusual?

Yes, examinations generally are conducted over a period of two to three months by field examiners, and final reports are usually issued within six months from the start of the examination. Hence, the duration of this examination appears to be clearly outside normal standards.

5. Have the procedures conducted by the examiners appeared to be different or more extensive than you believe is typical?

While I don't have first-person knowledge of the examiners' procedures, I have discussed the procedures with Lincoln Savings' management and legal counsel. Based on these discussions, the extent of loan file reviews, the number of appraisals ordered, the nature of the appraisal process including the location and experience of appraisers selected, the redundant procedures and requests for data, and the types of transactions examined, are unusual. By way of example, the examiners asked to (a) review loan files for loans which had been fully collected by the time of the examination, (b) review files for proposed securities transactions where, after analysis, the securities were not purchased by Lincoln Savings and hence no transaction occurred, (c) review data which had been reviewed in a previous examination, and (d) re-appraise properties using appraisers who were unfamiliar with the markets in which subject properties were located. These requests are not, in my experience, typical.

AYS-000551

6. Was the unusual duration of the examination and type and extent of the procedures used caused by the nature of Lincoln Savings operations?

While Lincoln Savings is not a typical association in that it is not a significant single family residential lender but rather tends to concentrate on land development and construction lending, it engages in transactions comparable to those entered into by other associations in Arizona and California. The focus of the FHLBB examination appears to have been centered on (a) land development projects, (b) investments in equity and noninvestment grade debt securities, and (c) commercial and construction loans. Because of the nature of the population growth patterns and economic climate in the western states, savings and loan associations in this area tend to rely more heavily on land development and commercial and construction lending to invest their resources, particularly since 1983, than do associations in other parts of the country.

Land development and commercial and construction lending tend to result in fewer transactions but transactions of greater dollar size than does residential lending. Thus it may be perceived that such lending activities bear greater risk. This perception, which is clearly held by the FHLBB, may not be accurate or realistic.

The residential lender is subject to interest rate risk. If rates rise rapidly, fixed rate loans lose their value rapidly and interest rate spreads quickly erode. And, because variable rate loans usually have annual and life-of-loan interest rate caps, such loans are also highly subject to interest rate risk. The evidence of such risk is the failure of thrifts in the period 1979-1983. During this period, which was prior to deregulation, virtually all failures related to interest spread erosion by single family residential lenders.

In February 1984, when ACC acquired Lincoln Savings, Lincoln was in the position of other traditional thrifts in that its interest spread was insufficient to provide a level of profitability. Since ACC's primary business was land development and home-building, it looked to what it knew best to improve Lincoln's profits and reduce risk. After its acquisition, Lincoln acquired parcels of prime real estate in Arizona and other growth states, increased its construction lending, and sought other nontraditional investments. Since this strategy was put in place, Lincoln has realized aggregate after-tax earnings of more than \$141,000,000.

March 17, 1987
The Honorable John McCain
page 4

Because the experience of most of the FHLBB's more senior examiners is with traditional single family lenders, Lincoln Savings is different from their prior experience. Also, the more junior examiners generally lack the business acumen to understand complex real estate development projects or complex investment strategies. Hence, while the examiners' decision to focus on real estate, commercial and construction lending, and equity and debt investments may have been proper, they appear to have had neither sufficient experience nor knowledge to deal with Lincoln's transactions effectively, thereby causing the examination to be more protracted than necessary.

Moreover, because Lincoln does not concentrate on single family residential lending, it does not fit the pattern for member institutions that the present FHLBB leadership has espoused publicly and as reflected in recent regulations. This fact has, based on my observations, led to unusually antagonistic positions and actions by the FHLBB towards Lincoln. This is difficult to fully understand because Lincoln's strategies have thus far proved successful and have turned an association headed for failure into a strong and viable financial entity. And, as stated earlier, Lincoln's strategies are not that different from other successful thrifts in the West. Most engage in real estate development, either directly or through joint ventures, many have far greater construction and commercial loan portfolios (as a percent of assets and in dollar volume) than Lincoln, and many have much heavier concentrations of noninvestment grade securities. Many of the associations with these characteristics are among the most profitable in the country and are considered to be the best managed by knowledgeable analysts.

Thus, the nature of Lincoln's operations should not have resulted in the protracted period of the examination or the unusual procedures employed. But, because the examiners did not have the requisite experience or knowledge to evaluate the types of transactions entered into by Lincoln, the nature of the business did, in fact, cause the examination to be inordinately protracted.

As to the nature of the procedures employed, the experience factor contributed to some of the redundant procedures. Others, I believe, based on observations of FHLBB personnel, were the result of the FHLBB'S resistance to Lincoln's nontraditional business profile and the fact that Lincoln does not fit into the mold desired by the FHLBB leadership.

AY5-000553

March 17, 1987
The Honorable John McCain
page 5

7. Lincoln Savings' representatives have asserted that the FHLBB examiners were unreasonable in their decision making and that at times their conduct bordered on "harassment." Did you observe personally any such conduct by the FHLBB?

The following support Lincoln's assertions:

- a. With respect to certain loans, a separate report was requested from Lincoln's independent accountants (the firm which preceded our firm) regarding the appropriateness of Lincoln's accounting for such loans. That firm issued a report concluding that Lincoln's accounting was appropriate under relevant professional literature. The FHLBB did not accept this report and requested a second opinion by another firm. Our firm was contacted by both ACC and the FHLBB to render the second opinion. Our firm independently reviewed the subject loans and issued an opinion concurring with the other accountant's opinion. The FHLBB has subsequently rejected our opinion as well. Such rejection was made by a person with less than eight years' experience in accounting practice. Thus a person with relatively little experience has rejected the opinions of two international accounting firms.
- b. On February 6, 1987, the FHLBB notified Lincoln that it had determined that specific reserves in the amount of \$36,634,000 were required to be recorded. Such reserve request did not (a) take into account the reserves already established by Lincoln, (b) data supplied to the FHLBB by Lincoln which clearly indicated that certain appraisals on which such reserves were predicated were incorrect, or (c) that certain assets were not subject to their reserve procedures because they were operating properties and not investment assets. Moreover, the notice stated, "The loss reserve directed by the Supervisory Agent must be established before any such subsequent reappraisals will be accepted for consideration." As the Supervisory Agent had been informed that Lincoln believed the requested reserves to be based on erroneous data, the issuance of such a notice and the terms thereof are unreasonable and unusual based on my prior experience with the FHLBB.

AY5-000554

- c. On at least two occasions that I am aware of the supervising agent, in group meetings, indicated the examination was complete and a final report would be forthcoming shortly. Additionally, the agent was specifically asked if all issues of concern to the FHLBB had been communicated to Lincoln, to which question the agent answered affirmatively. At this date new issues have been raised and a final report has not been issued. This is in spite of the fact that a draft report was prepared and provided to Lincoln in early November 1986 and again in December 1986.
 - d. The examination became a fluid event. The first period examined was through December 31, 1985; then through June 30, 1986; and then through September 30, 1986. Draft reports have been issued at various dates stating, "The following agenda items, subject to final review, summarize the results of our examination of Lincoln Savings and Loan Association as of ..." However, after each draft, and apparently after the field examiners concluded they had completed the examination, new inquiries have been made and additional data has been requested from Lincoln. I have specific knowledge that this has caused Lincoln great expense and has distracted its management from the daily operations of the thrift's business.
 - e. Data requests from the examiners have clearly been redundant and, based on my experience, excessive as to the amount of data and level of detail requested.
 - f. Lastly, the examiners' interpretations of accounting principles and their own regulations and examination guidelines have been consistently and unreasonably pejorative to Lincoln. In meetings I've attended the FHLBB personnel have appeared, without apparent cause, to be openly hostile and inflexible towards Lincoln personnel and their representatives.
8. Do you believe the eventual outcome of the examination will be detrimental to Lincoln's well being?

Based on the draft reports presented to Lincoln, I believe the results will indicate Lincoln fails to meet the minimum net worth requirement as determined by the FHLBB staff. I don't believe the facts and circumstances will, if objectively viewed, support such a conclusion. Thus, the final report will in all likelihood be detrimental and inappropriately so. This is not to say that Lincoln could not, or should not, improve certain of its internal procedures. But based solely on my personal observations to date, the final report can be expected to be unduly harsh.

March 17, 1987
The Honorable John McCain
page 7

I trust the above has been responsive to your questions. I have attempted to answer each question objectively and without bias either towards Lincoln or the FHLBB.

Yours truly

[Redacted Signature]

[Redacted Title]

Phoenix Office

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AY5-000556



A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Arthur Young

1700 Valley Bank Center
Phoenix, Arizona 85073
Telephone: (602) 258-4831

March 17, 1987

The Honorable Dennis DeConcini
United States Senate
328 Hart Senate Building
Washington DC 20510

Dear Senator DeConcini:

Certain questions have been raised by you and others with regard to Lincoln Savings, a California-chartered savings and loan association, which is wholly owned by American Continental Corporation (ACC) and its experience with the Federal Home Loan Bank Board (FHLBB). The following sets forth such questions and what I believe are objective answers to the questions.

1. What is Lincoln Savings' financial condition at December 31, 1986 and its operating results for the year then ended?

My firm, Arthur Young & Company, examined the financial statements of Lincoln Savings at and for the year ended December 31, 1986, and issued an unqualified opinion dated February 17, 1987 on such financial statements. Lincoln Savings' consolidated statement of financial condition at December 31, 1986 reflected stockholder's equity, as determined in accordance with generally accepted accounting principles (GAAP), of \$193,024,000 (or approximately 6.8% of its FSLIC-insured deposits) at that date. Its consolidated statement of operations reflected earnings before income taxes of \$81,689,000 and net earnings of \$48,958,000 for the year ended December 31, 1986.

2. In determining its earnings and stockholder's equity, did Lincoln Savings make provisions for potential losses?

Yes, the above-cited stockholders' equity is after valuation allowances of approximately \$28,000,000 at December 31, 1986 and the pretax earnings for the year are net of provisions for losses of \$32,500,000. In the course of my firm's examination of Lincoln Savings' financial statements, the firm tested the valuation allowances and the bases therefor and concluded such allowances were fairly stated in all respects material to Lincoln Savings' financial statements taken as a whole.

AY5-000557

March 17, 1987

The Honorable Dennis DeConcini

page 2

3. Is the Federal Home Loan Bank Board currently conducting an examination of Lincoln Savings?

Yes, the FHLBB began an examination in approximately March 1986, and as of this date has not yet concluded such examination. Accordingly, such examination has been ongoing for approximately one year. One team of examiners conducted procedures from March to May 1986, and another group conducted comparable, and in many instances identical, procedures during the period August to October 1986. Since October, the FHLBB continues to seek additional information from Lincoln Savings, some of which has been previously provided to and been reviewed by the field examiners.

4. In your experience, is the duration of the FHLBB examination unusual?

Yes, examinations generally are conducted over a period of two to three months by field examiners, and final reports are usually issued within six months from the start of the examination. Hence, the duration of this examination appears to be clearly outside normal standards.

5. Have the procedures conducted by the examiners appeared to be different or more extensive than you believe is typical?

While I don't have first-person knowledge of the examiners' procedures, I have discussed the procedures with Lincoln Savings' management and legal counsel. Based on these discussions, the extent of loan file reviews, the number of appraisals ordered, the nature of the appraisal process including the location and experience of appraisers selected, the redundant procedures and requests for data, and the types of transactions examined, are unusual. By way of example, the examiners asked to (a) review loan files for loans which had been fully collected by the time of the examination, (b) review files for proposed securities transactions where, after analysis, the securities were not purchased by Lincoln Savings and hence no transaction occurred, (c) review data which had been reviewed in a previous examination, and (d) re-appraise properties using appraisers who were unfamiliar with the markets in which subject properties were located. These requests are not, in my experience, typical.

6. Was the unusual duration of the examination and type and extent of the procedures used caused by the nature of Lincoln Savings operations?

While Lincoln Savings is not a typical association in that it is not a significant single family residential lender but rather tends to concentrate on land development and construction lending, it engages in transactions comparable to those entered into by other associations in Arizona and California. The focus of the FHLBB examination appears to have been centered on (a) land development projects, (b) investments in equity and noninvestment grade debt securities, and (c) commercial and construction loans. Because of the nature of the population growth patterns and economic climate in the western states, savings and loan associations in this area tend to rely more heavily on land development and commercial and construction lending to invest their resources, particularly since 1983, than do associations in other parts of the country.

Land development and commercial and construction lending tend to result in fewer transactions but transactions of greater dollar size than does residential lending. Thus it may be perceived that such lending activities bear greater risk. This perception, ~~which is clearly held by the FHLBB,~~ may not be accurate or realistic.

The residential lender is subject to interest rate risk. If rates rise rapidly, fixed rate loans lose their value rapidly and interest rate spreads quickly erode. And, because variable rate loans usually have annual and life-of-loan interest rate caps, such loans are also highly subject to interest rate risk. The evidence of such risk is the failure of thrifts in the period 1979-1983. During this period, which was prior to deregulation, virtually all failures related to interest spread erosion by single family residential lenders.

In February 1984, when ACC acquired Lincoln Savings, Lincoln was in the position of other traditional thrifts in that its interest spread was insufficient to provide a level of profitability. Since ACC's primary business was land development and home-building, it looked to what it knew best to improve Lincoln's profits and reduce risk. After its acquisition, Lincoln acquired parcels of prime real estate in Arizona and other growth states, increased its construction lending, and sought other nontraditional investments. Since this strategy was put in place, Lincoln has realized aggregate after-tax earnings of more than \$141,000,000.

March 17, 1987
The Honorable Dennis DeConcini
page 4

Because the experience of most of the FHLBB's more senior examiners is with traditional single family lenders, Lincoln Savings is different from their prior experience. Also, the more junior examiners generally lack the business acumen to understand complex real estate development projects or complex investment strategies. Hence, while the examiners' decision to focus on real estate, commercial and construction lending, and equity and debt investments may have been proper, they appear to have had neither sufficient experience nor knowledge to deal with Lincoln's transactions effectively, thereby causing the examination to be more protracted than necessary.

Moreover, because Lincoln does not concentrate on single family residential lending, it does not fit the pattern for member institutions that the present FHLBB leadership has espoused publicly and as reflected in recent regulations. This fact has, based on my observations, led to unusually antagonistic positions and actions by the FHLBB towards Lincoln. This is difficult to fully understand because Lincoln's strategies have thus far proved successful and have turned an association headed for failure into a strong and viable financial entity. And, as stated earlier, Lincoln's strategies are not that different from other successful thrifts in the West. Most engage in real estate development, either directly or through joint ventures, many have far greater construction and commercial loan portfolios (as a percent of assets and in dollar volume) than Lincoln, and many have much heavier concentrations of noninvestment grade securities. Many of the associations with these characteristics are among the most profitable in the country and are considered to be the best managed by knowledgeable analysts.

Thus, the nature of Lincoln's operations should not have resulted in the protracted period of the examination or the unusual procedures employed. But, because the examiners did not have the requisite experience or knowledge to evaluate the types of transactions entered into by Lincoln, the nature of the business did, in fact, cause the examination to be inordinately protracted.

As to the nature of the procedures employed, the experience factor contributed to some of the redundant procedures. Others, I believe, based on observations of FHLBB personnel, were the result of the FHLBB'S resistance to Lincoln's nontraditional business profile and the fact that Lincoln does not fit into the mold desired by the FHLBB leadership.

AYS-000560

March 17, 1987
The Honorable Dennis DeConcini
page 5

7. Lincoln Savings' representatives have asserted that the FHLBB examiners were unreasonable in their decision making and that at times their conduct bordered on "harassment." Did you observe personally any such conduct by the FHLBB?

The following support Lincoln's assertions:

- a. With respect to certain loans, a separate report was requested from Lincoln's independent accountants (the firm which preceded our firm) regarding the appropriateness of Lincoln's accounting for such loans. That firm issued a report concluding that Lincoln's accounting was appropriate under relevant professional literature. The FHLBB did not accept this report and requested a second opinion by another firm. Our firm was contacted by both ACC and the FHLBB to render the second opinion. Our firm independently reviewed the subject loans and issued an opinion concurring with the other accountant's opinion. The FHLBB has subsequently rejected our opinion as well. Such rejection was made by a person with less than eight years' experience in accounting practice. Thus a person with relatively little experience has rejected the opinions of two international accounting firms.
- b. On February 6, 1987, the FHLBB notified Lincoln that it had determined that specific reserves in the amount of \$36,634,000 were required to be recorded. Such reserve request did not (a) take into account the reserves already established by Lincoln, (b) data supplied to the FHLBB by Lincoln which clearly indicated that certain appraisals on which such reserves were predicated were incorrect, or (c) that certain assets were not subject to their reserve procedures because they were operating properties and not investment assets. Moreover, the notice stated, "The loss reserve directed by the Supervisory Agent must be established before any such subsequent reappraisals will be accepted for consideration." As the Supervisory Agent had been informed that Lincoln believed the requested reserves to be based on erroneous data, the issuance of such a notice and the terms thereof are unreasonable and unusual based on my prior experience with the FHLBB.

AYS-000561

March 17, 1987

The Honorable Dennis DeConcini

page 6

- c. On at least two occasions that I am aware of the supervising agent, in group meetings, indicated the examination was complete and a final report would be forthcoming shortly. Additionally, the agent was specifically asked if all issues of concern to the FHLBB had been communicated to Lincoln, to which question the agent answered affirmatively. At this date new issues have been raised and a final report has not been issued. This is in spite of the fact that a draft report was prepared and provided to Lincoln in early November 1986 and again in December 1986.
 - d. The examination became a fluid event. The first period examined was through December 31, 1985; then through June 30, 1986; and then through September 30, 1986. Draft reports have been issued at various dates stating, "The following agenda items, subject to final review, summarize the results of our examination of Lincoln Savings and Loan Association as of ..." However, after each draft, and apparently after the field examiners concluded they had completed the examination, new inquiries have been made and additional data has been requested from Lincoln. I have specific knowledge that this has caused Lincoln great expense and has distracted its management from the daily operations of the thrift's business.
 - e. Data requests from the examiners have clearly been redundant and, based on my experience, excessive as to the amount of data and level of detail requested.
 - f. Lastly, the examiners' interpretations of accounting principles and their own regulations and examination guidelines have been consistently and unreasonably pejorative to Lincoln. In meetings I've attended the FHLBB personnel have appeared, without apparent cause, to be openly hostile and inflexible towards Lincoln personnel and their representatives.
8. Do you believe the eventual outcome of the examination will be detrimental to Lincoln's well being?

Based on the draft reports presented to Lincoln, I believe the results will indicate Lincoln fails to meet the minimum net worth requirement as determined by the FHLBB staff. I don't believe the facts and circumstances will, if objectively viewed, support such a conclusion. Thus, the final report will in all likelihood be detrimental and inappropriately so. This is not to say that Lincoln could not, or should not, improve certain of its internal procedures. But based solely on my personal observations to date, the final report can be expected to be unduly harsh.

AYS-000562

March 17, 1987
The Honorable Dennis DeConcini
page 7

I trust the above has been responsive to your questions. I have attempted to answer each question objectively and without bias either towards Lincoln or the FHLBB.

Yours truly,

[Redacted Signature]

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[Redacted Title]

Phoenix Office

AYS-000563



A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Arthur Young

1700 Valley Bank Center
Phoenix, Arizona 85073
Telephone: (602) 258-4831

March 13, 1987

The Honorable Donald W. Riegle, Jr.
United States Senate
105 Dirksen
Senate Building
Washington DC 20510

Dear Senator Riegle:

During a meeting with you on February 28, 1987 you raised certain questions with regard to Lincoln Savings, a California-chartered savings and loan association, which is wholly owned by American Continental Corporation (ACC). The following sets forth such questions and what I believe are objective answers to the questions.

1. What is Lincoln Savings' financial condition at December 31, 1986 and its operating results for the year then ended?

My firm, Arthur Young & Company, examined the financial statements of Lincoln Savings at and for the year ended December 31, 1986, and issued an unqualified opinion dated February 17, 1987 on such financial statements. Lincoln Savings' consolidated statement of financial condition at December 31, 1986 reflected stockholder's equity, as determined in accordance with generally accepted accounting principles (GAAP), of \$193,024,000 (or approximately 6.8% of its FSLIC-insured deposits) at that date. Its consolidated statement of operations reflected earnings before income taxes of \$81,689,000 and net earnings of \$48,958,000 for the year ended December 31, 1986.

2. In determining its earnings and stockholder's equity, did Lincoln Savings make provisions for potential losses?

Yes, the above-cited stockholders' equity is after valuation allowances of approximately \$28,000,000 at December 31, 1986 and the pretax earnings for the year are net of provisions for losses of \$32,500,000. In the course of my firm's examination of Lincoln Savings' financial statements, the firm tested the valuation allowances and the bases therefor and concluded such allowances were fairly stated in all respects material to Lincoln Savings' financial statements taken as a whole.

March 13, 1987

The Honorable Donald W. Riegle, Jr.

page 2

3. Is the Federal Home Loan Bank Board (FHLBB) currently conducting an examination of Lincoln Savings?

Yes, the FHLBB began an examination in approximately March 1986, and as of this date has not yet concluded such examination. Accordingly, such examination has been ongoing for approximately one year. One team of examiners conducted procedures from March to May 1986, and another group conducted comparable, and in many instances identical, procedures during the period August to October 1986. Since October, the FHLBB continues to seek additional information from Lincoln Savings, some of which has been previously provided to and been reviewed by the field examiners.

4. In your experience, is the duration of the FHLBB examination unusual?

Yes, examinations generally are conducted over a period of two to three months by field examiners, and final reports are usually issued within six months from the start of the examination. Hence, the duration of this examination appears to be clearly outside normal standards.

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March 13, 1987
The Honorable Donald W. Riegle, Jr.
page 3

6. Was the unusual duration of the examination and type and extent of the procedures used caused by the nature of Lincoln Savings operations?

While Lincoln Savings is not a typical association in that it is not a significant single family residential lender but rather tends to concentrate on land development and construction lending, it engages in transactions comparable to those entered into by other associations in Arizona and California. The focus of the FHLBB examination appears to have been centered on (a) land development projects, (b) investments in equity and noninvestment grade debt securities, and (c) commercial and construction loans. Because of the nature of the population growth patterns and economic climate in the western states, savings and loan associations in this area tend to rely more heavily on land development and commercial and construction lending to invest their resources, particularly since 1983, than do associations in other parts of the country.

Land development and commercial and construction lending tend to result in fewer transactions but transactions of greater dollar size than does residential lending. Thus it may be perceived that such lending activities bear greater risk. This perception, which is clearly held by the FHLBB, may not be accurate or realistic.

The residential lender is subject to interest rate risk. If rates rise rapidly, fixed rate loans lose their value rapidly and interest rate spreads quickly erode. And, because variable rate loans usually have annual and life-of-loan interest rate caps, such loans are also highly subject to interest rate risk. The evidence of such risk is the failure of thrifts in the period 1979-1983. During this period, which was prior to deregulation, virtually all failures related to interest spread erosion by single family residential lenders.

In February 1984, when ACC acquired Lincoln Savings, Lincoln was in the position of other traditional thrifts in that its interest spread was insufficient to provide a level of profitability. Since ACC's primary business was land development and home-building, it looked to what it knew best to improve Lincoln's profits and reduce risk. After its acquisition, Lincoln acquired parcels of prime real estate in Arizona and other growth states, increased its construction lending, and sought other nontraditional investments. Since this strategy was put in place, Lincoln has realized aggregate after-tax earnings of more than \$141,000,000.

March 13, 1987
The Honorable Donald W. Riegle, Jr.
page 4

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Moreover, because Lincoln does not concentrate on single family residential lending, it does not fit the pattern for member institutions that the present FHLBB leadership has espoused publicly and as reflected in recent regulations. This fact has, based on my observations, led to unusually antagonistic positions and actions by the FHLBB towards Lincoln. This is difficult to fully understand because Lincoln's strategies have thus far proved successful and have turned an association headed for failure into a strong and viable financial entity. And, as stated earlier, Lincoln's strategies are not that different from other successful thrifts in the West. Most engage in real estate development, either directly or through joint ventures, many have far greater construction and commercial loan portfolios (as a percent of assets and in dollar volume) than Lincoln, and many have much heavier concentrations of noninvestment grade securities. Many of the associations with these characteristics are among the most profitable in the country and are considered to be the best managed by knowledgeable analysts.

Thus, the nature of Lincoln's operations should not have resulted in the protracted period of the examination or the unusual procedures employed. But, because the examiners did not have the requisite experience or knowledge to evaluate the types of transactions entered into by Lincoln, the nature of the business did, in fact, cause the examination to be inordinately protracted.

As to the nature of the procedures employed, the experience factor contributed to some of the redundant procedures. Others, I believe, based on observations of FHLBB personnel, were the result of the FHLBB'S resistance to Lincoln's nontraditional business profile and the fact that Lincoln does not fit into the mold desired by the FHLBB leadership.

March 13, 1987
The Honorable Donald W. Riegle, Jr.
page 5

7. Lincoln Savings' representatives have asserted that the FHLBB examiners were unreasonable in their decision making and that at times their conduct bordered on "harassment." Did you observe personally any such conduct by the FHLBB?

The following support Lincoln's assertions:

- a. With respect to certain loans, a separate report was requested from Lincoln's independent accountants (the firm which preceded our firm) regarding the appropriateness of Lincoln's accounting for such loans. That firm issued a report concluding that Lincoln's accounting was appropriate under relevant professional literature. The FHLBB did not accept this report and requested a second opinion by another firm. Our firm was contacted by both ACC and the FHLBB to render the second opinion. Our firm independently reviewed the subject loans and issued an opinion concurring with the other accountant's opinion. The FHLBB has subsequently rejected our opinion as well. Such rejection was made by a person with less than eight years' experience in accounting practice. Thus a person with relatively little experience has rejected the opinions of two international accounting firms.
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AY5-6987

March 13, 1987
The Honorable Donald W. Riegler, Jr.
page 6

AYS-6988

- c. On at least two occasions that I am aware of the supervising agent, in group meetings, indicated the examination was complete and a final report would be forthcoming shortly. Additionally, the agent was specifically asked if all issues of concern to the FHLBB had been communicated to Lincoln, to which question the agent answered affirmatively. At this date new issues have been raised and a final report has not been issued. This is in spite of the fact that a draft report was prepared and provided to Lincoln in early November 1986 and again in December 1986.
 - d. The examination became a fluid event. The first period examined was through December 31, 1985; then through June 30, 1986; and then through September 30, 1986. Draft reports have been issued at various dates stating, "The following agenda items, subject to final review, summarize the results of our examination of Lincoln Savings and Loan Association as of ..." However, after each draft, and apparently after the field examiners concluded they had completed the examination, new inquiries have been made and additional data has been requested from Lincoln. I have specific knowledge that this has caused Lincoln great expense and has distracted its management from the daily operations of the thrift's business.
 - e. Data requests from the examiners have clearly been redundant and, based on my experience, excessive as to the amount of data and level of detail requested.
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8. Do you believe the eventual outcome of the examination will be detrimental to Lincoln's well being?

Based on the draft reports presented to Lincoln, I believe the results will indicate Lincoln fails to meet the minimum net worth requirement as determined by the FHLBB staff. I don't believe the facts and circumstances will, if objectively viewed, support such a conclusion. Thus, the final report will in all likelihood be detrimental and inappropriately so. This is not to say that Lincoln could not, or should not, improve certain of its internal procedures. But based solely on my personal observations to date, the final report can be expected to be unduly harsh.

March 13, 1987
The Honorable Donald W. Riegle, Jr.
page 7

I trust the above has been responsive to your questions. I have attempted to answer each question objectively and without bias either towards Lincoln or the FHLBB.

Yours truly,



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AY5-6989

[REDACTED]
NEW YORK, N. Y. 10006

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November 1, 1984

[REDACTED]
Federal Home Loan Bank Board
1700 G. Street, N.W.
Washington, D.C. 20552

Dear [REDACTED]

I am writing at the request of [REDACTED]
[REDACTED] Esq. and on behalf of Lincoln Savings and Loan
Association to state my professional opinion concerning
the rule proposed by the Federal Home Loan Bank Board
(the "Board") which would limit the amount of direct
investments that state-chartered savings and loan asso-
ciations may make (the "Proposed Rule").* Further, I
am writing to express my agreement with the conclusions
drawn by Professor [REDACTED] on the basis of
his study of associations in eleven states that permit
direct investments and of savings and loan failures that
occurred in the period from January 1, 1981 to June 30,
1984.

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* 49 Fed. Reg. 20719 (1984).

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I understand that Professor [] is submitting his study to the Board together with a general summary of his conclusions. Accordingly, I will not discuss his study in detail, but I will state that it is the most comprehensive study of which I am aware that addresses directly the issues raised by the Proposed Rule and that I am in accord with the conclusions that Professor Benston draws from it.

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The Structural Crisis Confronting
the Savings and Loan Industry

The savings and loan industry in this country was created and grew to maturity under a special set of economic conditions: low inflation and relatively low and stable interest rates. These economic conditions no longer exist and are unlikely to exist for the indefinite future.

The dramatic change in financial conditions during the past several years created a crisis in the savings and loan industry in the early eighties. By 1981 the average cost of funds at savings and loans had risen to an unprecedented 10.9%. Yields on long-term savings and loan mortgage portfolios, heavily weighted with older, lower yielding instruments, lagged, averaging

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only 9.9% that year. The Board's figures identify the nature of the resulting crisis:*

	<u>Average Cost of S & L Funds</u>	<u>Average Return on S & L Mortgages</u>	<u>Average Net Interest Return</u>
1978	6.67	8.50	1.83
1979	7.47	8.86	1.39
1980	8.94	9.34	0.40
1981	10.92	9.91	-1.01
1982	11.38	10.68	-0.70

While inflation and skyrocketing interest rates affected every segment of the economy, they struck the savings and loan industry with particular severity. The structure of the industry's balance sheet -- long-term, largely fixed-rate assets matched against short-term liabilities -- made associations inherently vulnerable to increases in interest rates. By the early eighties the industry was under intense strain. Many associations simply failed and either disappeared or were merged with other, stronger associations. Many others, on the verge of failure, were saved temporarily by the infusion of government funds and by the existence of federal deposit insurance.

* Federal Home Loan Bank Board.

Because the crisis facing the industry resulted from a major and presumably fundamental change in economic conditions. it can be resolved only by equally major changes in the industry. Since the crisis is rooted, in particular, in the mismatch between the industry's long-term assets and short-term liabilities. it can be resolved only by a major restructuring of both those assets and liabilities. There is no realistic alternative.

So far, the industry has been unable to induce depositors to invest in certificates of deposit of sufficiently long-term nature to lengthen significantly the average maturity of the industry's liabilities. The industry should be encouraged to do more along this line.

Notwithstanding the possibility that the average maturity of the industry's liabilities might be lengthened, it is essential that the savings and loan industry be allowed to shorten the average maturity of its assets. Adjustable rate mortgages ("ARMs"), for example, offer one method of effectively shortening the maturity of industry assets. ARMs, however, are not sufficient by themselves to solve the industry's current problem. ARMs are subject to a variety of "caps" and

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other restrictions that limit their flexibility and prevent them from being fully adjustable with respect to changing market rates. Moreover, because their interest rates may be adjusted upward, ARMs carry an increased likelihood of default and hence are riskier instruments than fixed-rate mortgages. Further, given the enormous size of the industry's outstanding balance of fixed-rate and long-term mortgages, the use of ARMs -- even if they were otherwise sufficient -- would not allow the industry to cure its overall asset-liability mismatch for many years. Additional corrective measures are, therefore, essential.

Direct Investments are Essential for
the Financial Stability and Survival
of the Savings and Loan Industries

In this situation, so-called "direct investments" in real estate, equity securities and service corporations offer an economically efficient -- and necessary -- method of allowing savings and loan associations to remedy their asset-liability mismatch. This is true for several reasons. First, direct investments enable savings and loans to hold a wide range of short-term assets which allows them to match more directly the maturities on their liabilities. This would remedy the mismatch at its source. Second, direct investments offer associations an efficient method of diversifying

their holdings. Portfolio diversification is critical to financial soundness, and direct investments will enable associations to acquire assets with characteristics that complement those of home mortgages. thus helping to bring long-term financial stability. Third, direct investments will allow associations to take advantage of, and participate in, the most promising areas of local growth and development. Most associations, in fact, have special knowledge concerning local economic developments, and direct investments will enable them to use this knowledge in the most profitable, sound and effective manner for their associations while simultaneously benefitting the economic well-being of their communities.

Accordingly, direct investments constitute an investment option that is necessary to the financial health -- and, in many cases, the survival -- of savings and loan associations. Any artificial restriction on rational investment opportunities reduces the overall efficiency of the economy, and restrictions that directly impede efficient adjustments to broad and fundamental changes in the economy can only be detrimental to the associations and to the nation as a whole. Although

some direct investments are certainly more risky than some traditional savings and loan investments, whatever risks direct investments may entail are far less dangerous and acute than the risks that currently confront the industry. The risks currently imposed on the industry by fundamental changes in economic conditions and by asset-liability mismatch are severe and immediate, and the use of direct investments to avoid or minimize them would lessen the risks facing both the savings and loan industry and the economy as a whole. Under present and foreseeable future economic conditions, broad utilization of direct investments by savings and loans should lower the industry's overall level of risk and place it on a safer and sounder footing.

The Board's Proposed Rule Restricting Direct Investments Is Unsupported by the Facts and Will Likely Prove Harmful

It is my opinion that the Proposed Rule imposes limitations that are unsound in principle and that will prove to be harmful in practice. The Proposed Rule is based on assumptions that are unsupported by the available evidence and simply contrary to fact.

First, the Board assumes that the Proposed Rule will protect the savings and loan industry. This is not true. To the contrary, it will most likely cause serious injury. In my opinion, for every association that may be prevented from taking undue risk by the Proposed Rule, many will be positively harmed. The reason for this is that the industry as a whole requires the broad ability to make direct investments in order to restore and ensure its economic stability and prosperity. The industry simply cannot overcome the structural problems that threaten it if associations are restricted generally in the types of investments they are permitted to make.

Second, the Proposed Rule assumes that direct investments are riskier than traditional savings and loan investments. Some are, and some are not. All investments carry risks, and home mortgages are no exception.* A traditional home mortgage, for example, must

* For example, even an apparently secure and safe home mortgage carries an interest rate that is higher than the rate paid on AAA rated corporate bonds. The difference in the two interest rates is a measure of the greater riskiness of the home mortgage.

be based on fifteen to twenty-five or even thirty year projections about the physical condition of the structure, the probability that changes in the neighborhood will adversely affect value, and the likelihood that the general community will suffer economic decline or population loss. Further, risk in connection with home mortgages is not limited to the chances that the underlying value of the property will decline. Rather, it includes the financial risk to the association involved in creating and holding a fixed-term, fixed-interest asset -- the risk that unexpected changes in interest rates will reduce the value of the mortgage itself. This, of course, is precisely what happened during the past decade and the reason why the savings and loan industry is in a state of crisis. Thus, the Board's apparent assumptions about risk are both inadequate and misconceived.

Third, the Proposed Rule is based on the assumption that direct investments will reduce the funds available for financing home purchases. Indeed, Professor study strongly suggests that direct investments actually increase the mortgage-making

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activities of associations. The relatively short-term nature of direct investments means that funds are continuously available for new mortgage investments. Finally, the undeniable fact is that savings and loans are specialists in home financing, with experience and skills that give them an important comparative advantage in doing business in the home financing market. It is highly unlikely that the industry, or any significant number of associations, would abandon home financing and surrender these competitive advantages.

Moreover, the Board's apparent assumption that direct investments will reduce funds available for home mortgages is questionable for another reason. The single most significant change in the home financing market that has occurred in the past decade is the development and remarkable success of a secondary market in mortgages. Through the use of such instruments as mortgage-backed securities mortgages are now financed and held by a wide range of investors. The growth in this secondary market has been rapid.

002491

Asset Value of Outstanding
Home Mortgages*

(billions of dollars)

<u>Year-end</u>	<u>(1) Total</u>	<u>(2) All Savings and Loans</u>	<u>(3) Federally Sponsored Credit Agencies</u>	<u>(4) Mortgage Pools</u>	<u>(5) Total of 3 and 4</u>
1975	490	219	31	25	56
1976	554	254	31	37	69
1977	648	301	32	53	85
1978	760	345	41	65	106
1979	882	385	50	88	139
1980	978	411	58	107	165
1981	1,059	427	64	125	189
1982	1,106	392	74	174	248
1983	1,214	416	84	239	323

Since 1979 the value of home mortgages held by the secondary mortgage market has been growing much more rapidly than the value of home mortgages held by savings and loans associations:

Net Increase in Outstanding
Home Mortgages*

(billions of dollars)

<u>Annual</u>	<u>(1) Total</u>	<u>(2) All Savings and Loans</u>	<u>(3) Federally Sponsored Credit Agencies</u>	<u>(4) Mortgage Pools</u>	<u>(5) Total of 3 and 4</u>
1979	120	39	9	22	31
1980	97	26	8	19	26
1981	76	16	5	14	19
1982	52	-31	10	49	60
1983	109	24	9	65	75

* Federal Reserve System Flow-of-Funds.

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Thus, in 1932 and 1983 combined, while savings and loans saw a net decline of \$7 billion in home mortgages held, the secondary market increased its home mortgage holdings by approximately \$135 billion. In percentages, the share of the net increase in home mortgages held by savings and loans dropped from 55% in 1976 to 22% in 1983 while the share held by the secondary market rose from 19% to 69% in the same years.*

The significance of the new secondary market is obvious. Savings and loans are simply no longer the only or dominant source of funding for home financing, and they are no longer critical to mortgage origination. There is, indeed, no evidence to suggest that the savings and loan industry as now constituted -- or the thrift industry in general -- is necessary to maintain a viable home mortgage market. Consequently, in terms of home mortgage financing, there is no reason why savings and loans should not be permitted to make significant amounts of direct investments.

In view of the powerful reasons why direct investments are necessary for the financial health of

* Federal Reserve System Flow-of-Funds.

the savings and loan industry, only overwhelming evidence of imminent and acute risk from direct investments could rationally justify the Proposed Rule. Professor [redacted] study, with which I concur, demonstrates that the Board's assumptions are apparently without foundation and that the Proposed Rule could seriously harm the savings and loan industry.

Thus, the Proposed Rule is, in my opinion, unsound in principle and unsupported by the evidence.

I understand that Lincoln Savings and Loan Association has requested that the Board allow me to meet with it or its staff in order to discuss my view that the Proposed Rule is unwarranted and could prove harmful if put into effect. I hope that the Board will agree to such a meeting, and I am prepared to meet with the Board or its appropriate staff members in Washington at the earliest possible time.

I appreciate this opportunity to express my opinion about the Proposed Rule, and I hope that the Board will give me the opportunity to discuss the issue with it further before it reaches a final decision in this matter.

[redacted]

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April 10, 1987

FSLIC

April 9, 1987 Meeting
of FHLBSF Personnel
with Senators
Cranston, DeConcini,
Glenn, McCain &
Riegle

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At your request I am providing you this memorandum, which reflects the substance of yesterday's meeting with Senators Cranston, DeConcini, Glenn, McCain and Riegle. The Federal Home Loan Bank of San Francisco ("FHLB^{SF}") personnel who attended the meeting were [REDACTED]

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[REDACTED]

[REDACTED] The meeting commenced at 6:00 p.m. and ended at approximately 8:15 p.m., with two breaks of approximately 15 and 10 minutes during which the Senators voted. Senator Cranston was present only very briefly, because of his responsibilities on the Senate floor. The other Senators were present for substantially the entire meeting.

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Wk-19

This meeting was the product of an earlier meeting among yourself and Senators Cranston, DeConcini, Glenn and McCain. At that meeting, as related by you (and by these same Senators in yesterday's meeting) each of the Senators raised their concerns regarding the examination of Lincoln by FHLBSF, and you noted your unfamiliarity with any specifics of the examination, your confidence in FHLBSF, and your suggestion that the Senators ^{hear} ~~here~~ from FHLBSF our supervisory concerns regarding Lincoln. ✓ ✓

I was the only one at the April 8 meeting who took notes. While not verbatim, my notes are very extensive. At your request, I called you last night and read these notes to you. I have attached a copy of those notes to this memorandum. I have used these notes and my independent recall of the meeting to prepare this memorandum and provide the fullest possible record of the discussions at yesterday's meeting. I have circulating ^{led} ✓ this memorandum to Messrs. [redacted] for their review to ensure the accuracy of this memorandum. I believe that this memorandum is an accurate and complete record of the substance of yesterday's meeting.

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[redacted]

[redacted]

the Federal

Home Loan Bank of San Francisco. I have held that position for four years. I am here in my capacity

[redacted]

We have jurisdic-

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tion over California, Arizona and Nevada savings
and loans. [redacted] I was n the
industry for 20 years.

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DeConcini: Where?

[redacted] In New York.

DeConcini: Did you know [redacted]

[redacted] Yes. [redacted] is a good guy.

DeConcini: Yes. He's great.

[redacted] With me is [redacted]

[redacted] has joined us recently from the
Comptroller of the Currency, where he was [redacted]

[redacted] Before that he was
a lawyer for seven years.

McCain: We won't hold that against you.

[redacted] You were a litigator.

[redacted] No, I was in enforcement for seven years.

[redacted] Also with me is [redacted]

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[redacted] for
the Bank Board for three years. Next to [redacted] is

[redacted] He's been with the San Francisco
Bank for ____ years, before that he was an auditor
for a commercial bank, and before that he was in
school.

DeConcini: Thank you for coming. We wanted to meet with you
because we have determined that potential actions of
yours could injure a constituent. This is a
particular concern to us because Lincoln is
willing to take substantial actions to deal with
what we understand to be your concerns. Lincoln
is prepared to go into a major home loan program
-- up to 55 percent of its assets. We understand
that that's what the Bank Board wants S&Ls to do.
It's prepared to limit its high risk bond holdings
and real estate investments. It's even willing to
phase-out of the insurance process if you wish.
They need to deal with, one, the effect of our reg
. . . Lincoln is a viable organization. It made
\$49 million last year, even more the year before.
They fear falling below 3 percent and becoming
subject to your regulatory control of the
operations of their association. They have two
major disagreements with you. First, with regard

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to direct investment. Second, on your reappraisal. They're suing against your direct investment regulation. I can't make a judgment on the grandfathering issue. We suggest that the lawsuit be accelerated and that you grant them forbearance while the suit is pending. I know something about the appraisal values [Senator Glenn joins the meeting at this point] of the Federal Home Loan Bank Board. They appear to be grossly unfair. I know the particular property here. My family is in real estate. Lincoln is prepared to reach a compromise value with you.

Cranston: [He arrives at this point] I'm sorry I can't join you, but I have to be on the floor to deal with the bill. I just want to say that I share the concerns of the other Senators on this subject. [Senator Cranston leaves]

DeConcini: I'm not on the Banking Committee, and I'm not familiar with how all this works. I asked Don Riegle to explain to me how the Federal Home Loan System works because he's on Senate Banking. He explained it to me and that's why he's here.

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McCain:

Thank you for coming. One of our jobs as elected officials is to help constituents in a proper fashion. ACC is a big employer and important to the local economy. I wouldn't want any special favors for them. It's like the Apache helicopter program that Dennis and I are active on. The Army wants to cutback the program. Arizona contractors make major components of the Apache helicopter. We believe that the Apache is important to our national defense. That's why we meet with General _____ and try to keep the program alive.

I don't want any part of our conversation to be improper. We asked [] about that and he said it wasn't improper to discuss Lincoln. I'd like to mention the appraisal issue. It seems to me, from talking to many folks in Arizona, that there's a problem. Arizona is the second fastest growing state. Land values are skyrocketing. That has to be taken account of in appraisals.

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Glenn:

I apologize for being late. Lincoln is an Ohio chartered corporation, and . . .

[]

Excuse me, Lincoln is a California chartered S&L.

Glenn:

Well, Lincoln is wholly-owned by ACC.

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DeConcini: You said Lincoln was Ohio chartered, its California.

Glenn: Well, in any event, ACC is an Ohio chartered corporation. I've known them for a long time, but it wouldn't matter if I didn't. Ordinary exams take maybe up to 6 months. Even the accounting firm says you've taken an unusually adversary view toward Lincoln. To be blunt, you should charge them or get off their backs. If things are bad there, get ^{it} them. Their view is that they took a failing business and put it back on its feet. It's now viable and profitable. They took it off the endangered species list. Why has the exam dragged on and on and on? I asked [] about this. Lincoln has been told numerous times that the exam is being directed to continue by Washington. [] said this wasn't true.

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Riegle: I wasn't present at the earlier meeting. There are things happening that may indicate a pattern that do raise questions. There is broad concern on the Banking Committee about the American Banker article on the FADA and FSLIC fued. [] has great confidence in you as a team. He says you are some of the finest people in the system. The

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appearance from a distance is that this thing is out of control and has become a struggle between Keating and [] two people I gather who have never even met. The appearance is that it's a fight to a death. This discredits everyone if it becomes the perception. If there are fundamental problems at Lincoln, OK.

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I've had a lot of people come through the door feeling that they've been put through a meat grinder. I want professionalism, and your backgrounds attest to that professionalism. But I want not just professionalism, but fairness and the appearance of fairness. So I'm very glad to have this opportunity to hear your side of the story.

Glenn:

I'm not trying to get any one off. If there is wrongdoing I'm on your side. But I don't want any unfairness against a viable entity. ✓

[] How long do we have to speak to you? A half hour, an hour?

DeConcini:

As quickly as possible. We have a vote coming up soon.

[] First, if there's any fault to be had concerning the length of the examination, it's on my shoulders. We determine how examinations are conducted. [] never gave me instructions on how to conduct this exam or any other exam. At this meeting you'll hear things that [] doesn't know.

DeConcini: Did [] ever talk to you about the examination of Lincoln?

[] [] talked to me when that article ran in the Washington Post.

[] [] asked for a written response from us to the Washington Post article about the length of the exam at Lincoln. [] is correct. We received no instructions from [] about the exam of Lincoln. We decide how to do the exam.

[] This meeting is very unusual, to discuss a particular company.

DeConcini: It's very unusual for us to have a company that could be put out of business by its regulators. [] you're on, you have 10-12 minutes.

[REDACTED] An appraisal is an important part of underwriting. It is very important. If you don't do it right you expose yourself to loss. Our 1984 examination showed significant appraisal deficiencies. Mr. Keating promised to correct the problem. Our 1986 examination showed that the problems had not been corrected, that there were huge appraisal problems. There was no meaningful underwriting on most loans. We have independent appraisals. Merrill Lynch appraised the Phoenician. It shows a significant loss. Other loans had similar losses.

DeConcini: Why not get an independent appraiser?

[REDACTED] We did.

DeConcini: No, you hired them. Why not get a truly independent one or use arbitration, if you're trying to bend over backwards to be fair. There's no appeal from your reappraisal. Whatever it is you take it.

[REDACTED] If it meets our appraisal standards.

[] The Phoenician reappraisal process is not complete. We have received Lincoln's rebuttal and forwarded it to our independent appraisers.

✓ [] At this point the Senators left to vote. We resumed when Senators DeConcini and Riegle returned.] ✓

[] Lincoln had underwriting problems with all of their investments, equity securities, debt securities, land loans and direct real estate investments. It had no loan underwriting policy manual in effect when we began our 1986 exam. When the examiners requested such a manual they were informed that it was being printed. The examiners looked at 52 real estate loans that Lincoln had made since the 1984 exam. There were no credit reports on the borrowers in all 52 of the loan files.

DeConcini: I have trouble with this discussion. Are you saying that their underwriting practices were illegal or just not the best practice?

[] These underwriting practices violate our regulatory guidelines.

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[REDACTED]

They are also an unsafe and unsound practice.

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DeConcini: Those are two very different things.

[REDACTED]

You need credit reports for proper underwriting.

✓ [Senator Glenn returns at this point.]

Riegle: To recap what's been said for Senator Glenn, 52 of the 52 loans they looked at had no credit information. Do we have a history of loans to folks with inadequate credit?

[REDACTED]

\$47 million in loans were classified by examiners due to lack of adequate credit to assure repayment of the loans.

[REDACTED]

They're flying blind on all of their different loans and investments. That's what you do when you don't underwrite.

Glenn: How long had these loans been on the books?

✓ [Senator McCain returns at this point.]

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[REDACTED]

A fairly long time.

Glenn:

How many loans have gone belly-up?

[REDACTED]

We don't know at this point how many of the 52 have defaulted. These loans generally have interest reserves.

Glenn:

Well, the interest reserve should have run out on many of these.

[REDACTED]

These are longer term investments.

[REDACTED]

I know that Lincoln has refinanced some of these loans.

Glenn:

Some people don't do the kind of underwriting you want. Is their judgment good?

[REDACTED]

That approach might be OK if they were doing it with their own money. They aren't, they're using federally insured deposits.

Riegle:

Where's the smoking gun? Where are the losses?

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DeConcini: What's wrong with this if they're willing to clean up their act?

[redacted] This is a ticking time bomb.

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[redacted] I had another case which reported strong earnings in 1984. It was insolvent by 1985.

Riegle These people saved a failing thrift. ACC is reputed to be highly competent.

[redacted] Lincoln was not a failing thrift before ACC acquired it. It met its net worth requirement. It had returned to profitability before it was acquired. It has ^d one of the lowest ratios of scheduled assets in the 11th District, the area under our jurisdiction. Its losses were caused by an interest spread problem from high interest rates. It, as with most other California thrifts, would have become very profitable as interest rates ^e fall.

DeConcini: I don't know how you can consider it a success story. It lost \$24 million in 1982 and 1983. After it was acquired by ACC in [redacted] it made \$49 million in one year.

McCain: I haven't gotten an answer to my question about why the exam took so long.

[redacted]

It was an extremely complex examination because of their various investments. The examiners were actually in the institution from March to October -- 8 months. The asset classification procedure is very time consuming.

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McCain: What's the longest exam you ever had before?

[redacted]

Some have technically never ended, where we had severe problems with a shop.

McCain: Why would [redacted] say these things about the exam -- that it was inordinately long and bordered on harassment?

Glenn: And [redacted] said they withdrew as Lincoln's prior auditor because of your harassment.

Riegle: Have you seen the AY letter?

[redacted]

No.

Riegle: I'd like you to see the letter. It's been sent all over the Senate. [Hands the letter]

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I'm relatively new to the savings and loan industry, but I've never seen any bank or S&L that's anything like this. This isn't even close. You can ask any banker you know about these practices. They violate the law and regulations and common sense.

Glenn: What violates the law?

✓ Their direct investments ^uviolate the regulation. Then there's the file staffing. They took undated documents purporting to show underwriting efforts and put them into the files sometimes more than a year after they made the investment.

Glenn: Have you done anything about these violations of law?

We're sending a criminal referral to the Department of Justice. Not maybe, we're sending one. This is an extraordinarily serious matter. It involves a whole range of imprudent actions. I can't tell you strongly enough how serious this is. This is not a profitable institution. Prior

year adjustments will reduce that reported \$49 million profit. They didn't earn \$49 million. Let me give you one example. Lincoln sold a loan with recourse and booked a \$12 million profit. The purchaser rescinded the sale, but Lincoln left the \$12 million profit on its books. Now, I don't care how many accountants they get to say that's right, it's wrong. The only thing we have as regulators is our credibility. We have to preserve it.

DeConcini: Why would AY say these things, they have to guard their credibility too. They put the firm's neck out with this letter.

They have a client. The \$12 million in earnings was not unwound.

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DeConcini: You believe they'd prostitute themselves for a client?

Absolutely, it happens all the time.

WLA [The Senators left at this point for another vote.]

✓ W [We resumed when Senators DeConcini, McCain and Riegle returned.]

[] I also wanted to note that the Bank Board has had a lot of problems with AY, and is thinking of taking disciplinary action against it.

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[] Not for its actions here. Primarily because of its Texas office, which has never met a direct investment. They think everything is a loan. This ~~have~~ ^{has} quite an effect on the income you can claim.

✓ Empire of Texas is a perfect example. It did acquisition, development and construction loans that were really direct investments because the borrowers had no equity in the projects. It booked all the points and fees up/ front as income. It created interest reserves so the loans couldn't go into default. It provided takeout financing and then end loans so that the loans couldn't go into default for many years. All of this led it to report record profits. Even when the losses started, as long as it grew fast enough and could book new income up/ front it could remain

✓

"profitable". It gets to be kind of a pyramid scheme with rapid growth. Lincoln has grown very fast.

Many Congressional hearings have been very critical of the Bank Board for not acting more quickly against unsafe and unsound practices. Representative Dingell our . . . our, I grew up in the 16th District; his hearings were very critical about Beverly Hills, which had a clean accounting opinion and then, at last count is over \$900 million insolvent.

Then there was Sunrise, also with a clean opinion, and it is expected to cost FSLIC over \$500 million. And Congressman Barnard's hearing was very critical there.

Also San Marino.

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Yes. I can tell you from my experience as former

[redacted] where I sued for many of these failed shops, that ^{it is} its routine for the accounting firm to serve as management's expert witnesses and adopt an extremely adversarial tone.

What it all comes down to is that Congress has been on our ass, and many of us think rightly, to act before an institution fails. That's what we're doing here, and I think ^{this} ~~its~~ laudable.

DeConcini: What?

[redacted] Laudable.

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J [redacted] Our exam has found that ^{return} \$~~94~~ _____ million has to be written off Lincoln's books. That will leave them with a regulatory net worth of \$25 million. They will fail to meet their net worth requirement. They have \$103 million in goodwill on their books. If this were backed out they would be \$78 million insolvent.

[redacted] They would be taken over by the regulators if they were a bank.

DeConcini: You're saying they're insolvent.

[redacted] They'd be insolvent on a tangible capital basis, which is basically the capital standard for banks.

DeConcini: They'd be insolvent if they were a bank, but by law you have to use a regulatory capital standard, and under that standard they have \$25 million in capital. Is that what you're saying?

✓ By regulation we have adopted a regulatory capital standard.

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DeConcini: And you'll take control of them if they fail your net worth standard, you'll take operational control of them.

That's speculative. We'd take steps to reduce their risk exposure.

Riegle: What would you require them to sell?

We'd probably have them decrease their growth. Time and again we've found rapid growth associated with loss. Lincoln has grown rapidly.

Are you sure you want to talk about this? We haven't made any recommendation to the Bank Board yet. The Bank Board decides what action to take. These are very confidential matters.

Deconcini: No, then we don't want to go into it. We were just asking very hypothetically, and that's how you [indicating] were responding.

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That's right.

DeConcini: Can we do something other than liquidate them?

I hesitate to tell an association what to do. we're not in control of Lincoln, and won't be. We want to work the problem out.

McCain: Have they tried to work it out?

We've met with them numerous times. I've never seen such cantankerous behavior. At one point they said our examiners couldn't get any association documents unless they made the request through Lincoln's New York litigation counsel.

Riegle: Well, that does disturb me, when you have to go through New York litigation counsel. What could they do? Is it too late?

It's never too late.

✓ McCain: What's the best approach? Voluntary guidelines instead of a compulsory order?

DeConcini: How long will it take you to finish the exam?

Ten days.

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Glenn: Have they been told what you've told us.

✓ We provided them with our views and gave them every opportunity to have us hear what they say. We gave them our classification of asset materials and went through them loan by loan. This is one of the reasons the exam has taken so long.

had to

We gave them our classification materials on January _____. On March 9 we received 52 exhibits, amounting to a stack of paper this high (indicating approximately two feet of material) responding to that. We went through every page of that response.

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[REDACTED]

We didn't use in-house appraisers. We sent the reappraisals out to independent appraisers. We sent the reappraisals to Lincoln. We got rebuttals from Lincoln and sent them to the independent appraisers. I don't think there was any case that Lincoln agreed with the reappraisal.

[REDACTED]

None where the reappraisal indicated insufficient collateral.

✓ [REDACTED]

In very case, after reviewing the rebuttal, the independent appraiser has stood by his conclusion.

DeConcini: Of course, they have to.

[REDACTED]

No. The rebuttals claim specific problems with the independent appraiser's reappraisals; you didn't consider this feature or you used the wrong rental rate or approach to value. The independent appraiser has to come back to us and answer those specific claims by saying: yes I did consider that, and here's why I used the right rate and approach.

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11/28/89

DeConcini: I'd question those reappraisals. If you want to bend over backwards to be fair I'd arbitrate the differences.

✓ The criminality surprises me. We're not interested in discussing those issues. Our premise was that we had a viable institutions concerned that it was being over regulated. e

Glenn: What can we say to Lincoln?

Nothing with regard to the criminal referral. They haven't, and won't be told by us that we're making one.

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Glenn: You haven't told them?

No. Justice would skin us alive if we did. Those referrals are very confidential. We can't prosecute anyone ourselves. All we can do is refer it to Justice.

DeConcini: They make their own decision whether to prosecute?

[redacted]

Yes. I also want to mention that we are already investigating Arthur Anderson because of their role in the file stuffing. We don't know whether they knew the purpose for which they were preparing the materials. I don't want to get harassed . . . no, that's not the right word; I don't want to get criticized if we find out that AA was involved criminally and we have to make a referral on them. Don't want them to claim retaliation.

✓
We're in a tough spot.

With regard to what you can say to Lincoln, you might want to simply have them call us. If you really want to talk to them you can say that it will take us 7 to 10 days to finish the exam.

Riegle: Is this institution so far gone that it can't be salvaged?

[redacted]

I don't know. They've got enough risky assets on their books that a little bad luck could nail them. You can't remove the risk of what they already have. You can reduce what new risks they would otherwise add on.

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They have huge holdings in Tucson and Phoenix. The market can't absorb them for many years. You said earlier that ACC was extremely good, but ACC has gotten out of its former primary activity, homebuilding. I'm not saying they're bad businessmen, but they had to get out of one homebuilding market after another. They had to get out of Colorado when they had bad models and soil problems. They also had to get out of their second leading activity, mortgage banking. They're now down to Arizona.

That's not a bad market, but no one knows how well it will do over the many years that it would take to absorb such huge holdings in Tucson and Phoenix.

DeConcini: So you don't know what you'd do with the property even if you took them over.

[redacted] doesn't. [redacted] is a lawyer. We hire experts to do this work. Our study of their Arizona holdings was done by top experts. Our study of below investment grade corporate debt securities; what folks usually call junk bonds, but I avoid it because I don't know where you stand on such bonds; was done by top outside

experts. I see in this Arthur Young letter that they criticize us for having an accountant with "only" eight years of experience -- well I think . . . I don't see how you can claim eight years as inexperienced. But we didn't simply rely on him, we had, wasn't it [redacted] . . .

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[redacted] Yes. [redacted]

[redacted] We had [redacted] outside accountants, work on this. These are also some of the reasons the exam took time.

[redacted] I think my colleague [redacted] put it right when he said that it's like these guys put it all on 16 Black in Roulette. Maybe they'll win, but I can guarantee you that if an institution continues such behavior it will eventually go bankrupt.

Riegle: Well, I guess that's pretty definitive.

DeConcini: I'm sorry, but I really do have to leave now.

[The meeting broke up at this point, approximately 8:20 p.m.]

[redacted] I think my colleague [redacted] put it right when he said that it's like these guys put it all on 16 Black in Roulette. Maybe they'll win, but I can guarantee you that if an institution continues such behavior it will eventually go bankrupt.

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Riegle: Well, I guess that's pretty definitive.

DeConcini: I'm sorry, but I really do have to leave now.

[The meeting broke up at this point, approximately 8:20 p.m.]

April 9, 1987 Meeting
in Senator DeConcini's
Office

Cirone Introduces himself,

DeConcini ^{Reagle}
(McCain) present

We have determined that the ~~FBI~~ FAIBSF's possible actions could hurt a constituent

Lincoln is prepared to go into a major home loan program up to 55% of assets

Prepared to limit high risk bonds + real estate investments.

Phase out of insurance process if we wish.

They need effect of our ~~reg...~~ year before and becoming subject
viable org made \$49M last yr, more the last. Fear falling below 3%.

① Direct invest disagreement ② Reappraisal

Going re direct invest. I can't make a judgment re

grandfathering. We suggest that the law so it be accurate

^{Glenn comes in} + give forbearance while the suit is pending. I know something re appraisal values of FAIBSB. Appears to be grossly unfair. I know the property. My family's in real estate. Lincoln is prepared to reach ~~a compromise~~ a compromise value

^{arrives} Crongston I share the concerns of the other Senators here. [leaves]

^{Senate House} DeConcini I asked Don Reagle to explain it to me because he's on Banking + he explained it to me. That's why he's here.

McCain Thank you for coming. One of our jobs as elected officials is to help constituents in a proper fashion. All is a big employer important to ^{local economy} would not want any special favors for them. Apache helicopter analogous. I don't want any of our conversation to be improper. I'd like to mention appraisal issue. It seems to me from talking to many folks in Arizona that there's a problem. Arizona is 2nd fastest growing. Skyrocketing land values.

- 7 -

Glen I apologize for being late. ACC is in Ohio & wholly owns Lincoln. I've known them for a long time. Ordinary exams take maybe up to 6 mos. Even the acctg firm says we've taken an unusually adversary view toward Lincoln. Charge them on go off their back. If it's bad, get to them. Their view — they took a failing business & put it on its feet. Now viable & profitable. Took it off the endangered species list. Why has it dragged on & on & on. I asked Gray about this. Lincoln has been told numerous times that exam is being directed to continue by Washington. Gray says no.

Riegle I wasn't present at earlier mtg. There are things re the pattern that do raise questions. Concern on Banking Comm re American Banker article re FADA. has great confidence ^{b6} _{b7C} in you as a team. The appearance from a distance is that this is out of control & a struggle btwn Keating & Gray & is a fight to the death. This discredits everyone if this is the perception. If there are fundamental problems, OK. I've had a lot of people come through the door feeling that they've been put through a meat grinder. I want not just professionalism, but fairness & the appearance of fairness. ∴ I'm interested in your story.

Glen I'm not trying to get anyone off. If there is wrongdoing I'm on your side. But don't want unfairness v. a viable entity.

-3-

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[] How long do we get? 1/2 hr - 1 hour?

De Concini As quick as possible. We have vote.

[] If there's any fault re length of exam it's on my shoulder. [] gave me no instructions on this exam, or any exam. It's on my shoulders, you'll hear things they don't know.

De Concini Did [] ever talk to you about Lincoln exam
[] asked for written response to his 4 part article
No instructions from [] re exam. [] is right.

This is very unusual to discuss a company.

De Concini Unusual for us to have a company that could be put out of bus
[] you have 10-12 minutes

[] Appraisal is part of underwriting. Very important
1984 exam showed appraisal deficiencies. Reating promised
correction. 1986 exam showed huge appraisal problem

No underwriting on most loans. We have independent appraisals.
Merrill Lynch appraised Phoenician. Shows sign. loss. Other
loans had similar loss.

De Concini Why not get an independent appraiser?

[] It was

De Concini No you hired them, get one via arbitration
if you want to be fair,

De Concini No appeal. Whatever it is you take it.

If it meets our std

We went back w/ their rebuttal.

Break to Vote - Ricyle & De Concini returned

Generic underwriting problem. No loan policy.

was being printed when the examiners asked for it.

-4-

[redacted] No credit reports on 52 loans

De Concini I have trouble. Are you saying its illegal or just not the best practice.

[redacted] Violates the guidelines [redacted] Also unsafe & unsound. You need credit info to underwrite.

Riegle [Glenn & returns] To recap for Glenn -- 52 of 52 loans had no credit info. Do we have a history of loans to folks w/ enough credit?

[redacted] \$47 M classified due to lack of credit.

They're flying blind. On all of their kinds of loans.

Glenn How long were loans on books

[McCaig returns] [redacted] Fairly long time

Glenn ~~How~~ How many have gone belly-up?

[redacted] Interest reserves

Glenn Some people don't underwrite. Is their judgment good?

[redacted] They are doing it w/ their ^{own} money.

Riegle Whose's the smoking gun? Losses?

De Concini What's wrong if they'll clean up their act?

[redacted] Ticking time bomb.

I had another case w/ 1984 reported strong earnings.

Insolvent in 1985.

Riegle
~~De Concini~~

[redacted] saved a failing thrift. A CC highly competent. No. Met NCU requirement. Profitable before sale. Spread problem. Very tiny substandard assets. Would be very profitable now.

McCaig Why did exam take so long?

[redacted] Complex exam; March - Oct 8 mo's. Asset

classification

McCaig What's the longest exam you ever had before

-5-

[redacted] Some have technically never ended ^{borders on harassment.}
 McCain why would ~~AA~~ AY say these things. Inordinately long.
 Glenn AA said they got out due to harassment
 Riegle I'd like you to see the AY letter. [Gives it to us]
 Patricia I've never seen anything like this in banks or S&Ps
 violates law, & regulation & common sense

Glenn What violates law?

Patricia Have direct investment. Have file stuffing.

Glenn Have you done anything re law violations.

Patricia We're sending a criminal referral. Extraordinarily
 serious. Whole range of imprudent actions, I can't
 tell you strongly enough.

Not a profitable institution. Prior year adjustments
 will reduce that ^{reported \$49m profit}. They didn't earn \$49. \$12m example

De Concini Why would AY say that?

Patricia They have a client. \$12m in earnings
 if not unwound.

Break for Vote

De Concini, Riegle & McCain return

[redacted] ~~De Concini~~ We've had a lot of problem w/ AY
 Glenn - returns

Empire saga. Problem w/ AY.

\$1___ M has to be written off. NW = \$25m
 \$103m in goodwill. Tangible capital is insolvent by \$75m.

would be gone if a bank.

De Concini You'll take control if they fail NW. You take
 operational control

Speculative. Will ↓ risk.

-6-

Riegle] ~~What~~ Would you have them sell?

Probably to growth.

Do you want to talk about this? No recommendation yet.
Bd will decide. Very confidential

DeLozini] No

DeLozini] Can we do something other than liquidate?

I hesitate to tell an assn what to do. We're not in control
+ won't be. We want to work the problem out.

McCain] Have they tried to work it out

Never seen such cantankerous behavior. NY Litigation ^{some} lawyer.

Riegle] What could they do. Is it too late.

McCain]

It's never too late

McCain] What's the best approach. Voluntary guidelines.

We've met of them many times. We need to complete
the exam + give it to them

DeLozini] How long to finish the exam.

10 days

Glenn] Have they been told what you've told us.

We provide them every opportunity to hear what they
say + give them our views. Gave them ^{our} classification
materials + went through loan by loan. Got 52 exhibits on March
went through every page.

We didn't use in-house appraisers. Sent them out to
independent appraisers. Sent them to Lincoln. Got their
rebuttals. Sent them to independent appraisers.

DeLozini] I'd question the appraiser. Bend over
backwards to arbitrate.

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DeConcini The criminality surprises me. We're not interested in discussing them. We have a viable institution concerned re over regulation.

Glen What can we say to Lincoln?

[redacted] Nothing re criminal referrals. We're investigating
 AA re file stuffing. You might want to have them call us.

Can say 7-10 days to finish exam.

Riegle Is this institution so far gone that it can't be salvaged?

[redacted] I don't know. They've got enough on their books that
 a little bad luck could nail it.

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For the page number of
newspaper, city and state

ORANGE COUNTY
REGISTER

Date 12/22/89
Edition

Pg A3

(Mount Clipping in Space Below)

Sen. Wilson returns gifts to Keating

\$17,500 contribution
made in 1985 race

The Register

SACRAMENTO — Sen. Pete Wilson has returned \$17,500 in contributions he received in 1985 from Lincoln Savings owner Charles H. Keating, Keating's family and his business associates, an aide said Thursday.

Wilson, considered the front-runner for the 1990 Republican gubernatorial nomination, had logged in 18 checks from Keating associates on April 8, 1985, during his Senate campaign.

Otto Bos, Wilson's campaign manager, said the money was either mailed in or collected at a Los Angeles fund-raiser.

"The money all came together in one package," Bos said. "We decided this was not proper."

Keating's American Continental Corp., a Phoenix-based real-estate development firm, declared bankruptcy in April. About 23,000 Southern California consumers who had purchased uninsured American Continental debentures at Lincoln branches lost \$200 million. Irvine-

based Lincoln was seized by federal regulators the day after American declared bankruptcy.

At least five other US senators received contributions from Keating. They are being investigated because they met with federal regulators on Keating's behalf. California's other senator, Alan Cranston, solicited nearly \$1 million from Keating and his friends and

called or met with federal regulators at least eight times to discuss Lincoln.

"We never did anything for Keating," Bos said. "Sen. Wilson doesn't even recall meeting him."

"Sen. Wilson has been known as squeaky clean throughout his political career. He thinks this whole thing stinks and that's why he's returning the money."

Title

Character:

or

Classification: 58C-PX-41605

Submitting Office: LA

Indexing:

58A-PX-41605-16

12/4

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(118)

(Mount Clipping in Space Below)

Ex-editor says Ohio paper went easy on Charles Keating

BY BERNIE SHELLUM
Free Press Business Writer

In a sharply worded protest, a former business editor of the Cincinnati Enquirer has accused the newspaper's top editors of "burying" or "spiking" stories about Charles Keating Jr., a native of the city who is the central figure in the \$2.5-billion failure of Lincoln Savings & Loan Association.

The newspaper's chairman, a largely honorary post, is William Keating, a brother of Charles Keating.

John Morris stated his protest in a resignation letter dated Dec. 22, although he acknowledged in the letter that he had been "put on notice by management to leave by the end of the year."

Morris contended that the paper's top editors had suppressed

"stories that are not upbeat about downtown, retailing or Realtors."

"While all newspapers have one or two sacred cows, the Enquirer has more than most," Morris said in the letter. "They are spawned by the conflict between revenue and news, the unannounced agendas of management, (and) an expressed willingness to protect friends from unfavorable print."

The government filed a \$1.1-billion lawsuit against Charles Keating and his top associates in September, accusing them of looting the thrift, based in California, of millions of dollars in insured deposits. William Keating was initially a defendant in that suit, but was dropped in December.

Other lawsuits have been filed

See EDITOR, Page 2B

Ex-editor says Ohio paper went easy on Keating

EDITOR, from Page 1B

against Charles Keating and his associates on behalf of thousands of investors, including residents of Michigan and Ohio, who bought junk bonds issued by Keating's Phoenix-based American Continental Corp. and sold through Lincoln, the company's main holding.

As one example of the Enquirer's alleged self-censorship, Morris cited editor George Blake's deletion of a description of a champagne-splashed, window-smashing party at Charles Keating's Phoenix headquarters from a

story the newspaper published Dec. 19, 1988.

Blake has acknowledged that he edited out all references to the party but denied he had been influenced by Keating.

According to Morris, however, Blake's editing of the story helped persuade business proprietors that they could pressure the Enquirer into recasting stories "in a more favorable light."

Blake did not return telephone calls Tuesday seeking comment on Morris' letter.

A former publisher of the Enquirer, William Keating left that post in May 1986 to become chief executive officer of the Detroit Newspaper Agency, which manages the business affairs of the Free Press and News under a joint operating agreement.

On Tuesday, Morris would not comment on any aspect of his departure from the Enquirer.

Morris previously edited the business section of the Milwaukee Journal and served as the Chicago bureau chief for American Banker, a daily newspaper for the banking industry.

(Indicate page, name of newspaper, city and state.)
THE DETROIT FREE PRESS
DETROIT, MICHIGAN

Date: 1/10/90

Edition:

Pg. 1(B)

Title: CHARLES KEATING

Character: 29D-LA-102009*
or 58C-PX-41605*

Classification:

Submitting Office: DETROIT

Indexing:

58C-PX-41605-17

SEARCHED	INDEXED
SERIALIZED	FILED
JAN 20 1990	
FBI - DETROIT	

FEDERAL BUREAU OF INVESTIGATION

Date of transcription 1/18/90

[redacted]
OFFICE OF THRIFT SUPERVISION, (OTS) DEPARTMENT OF THE TREASURY,
580 California Street, San Francisco, California, telephone
number [redacted] was interviewed at the OTS, La Palma,
California. After having been advised of the interviewing
agents' identities and the nature of the interview, [redacted] provided
the following information:

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[redacted] advised that in the Fall of 1986, when [redacted]
left the FEDERAL HOME LOAN BANK BOARD (FHLBB), [redacted] became
a private consultant for savings and loan associations. [redacted]
who was friendly with FHLBB member [redacted] was retained
by the SPENCER SCOTT GROUP in early 1989 in connection with
the SPENCER SCOTT GROUP's attempted acquisition of LINCOLN
SAVINGS AND LOAN (LSAL). [redacted] said [redacted] of the
FHLBB in Washington, D.C., told him that [redacted] was to receive
a \$50,000 fee if the sale of LINCOLN SAVINGS AND LOAN to [redacted]
[redacted] was approved by the FHLBB. This sale was not approved,
due to insufficient capital of the SPENCER SCOTT GROUP.

[redacted] was asked about the history of [redacted]
appointment to the FHLBB. [redacted] said his recollection, based
primarily on news accounts, was that the popular view was then
that the Democratic seat on the board would go to [redacted]
and the Republican seat to [redacted] said [redacted] lost
support for his supposed antagonism towards the thrift industry,
and after Senators DOLE and PROXMIRE objected to [redacted] he
was never nominated. [redacted] said [redacted] was selected as
[redacted] replacement, because [redacted] had been slated for another
federal appointment, and his background investigation had already
been completed. [redacted] added that the press then reported that
Senator MATTINGLY of Georgia and then Congressman MCCAIN were
the primary supporters of [redacted] stated that [redacted]
hired his own secretary at the FHLBB, and this secretary had
moved with [redacted] from Atlanta, Georgia.

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[redacted] stated he was present on the evening of December
17, 1986, when [redacted] discussed his plan to modify the direct
investment rule. [redacted] said that the key provisions of the
modifications proposed by [redacted] on December 18, 1986,

Investigation on 1/11/90 at La Palma, California File # 58C-PX-41605-17X1
by SAs [redacted]
and [redacted] JAJ:df Date dictated 1/18/90

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~58C-PX-41605

Continuation of FD-302 of [REDACTED]

, On 1/11/90

, Page 2

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at the bank board meeting, were not discussed by [REDACTED] the previous evening. [REDACTED] said [REDACTED] proposal helped LINCOLN SAVINGS AND LOAN by lowering the capital requirements and permitting future direct investments, in addition to liberalizing the grand-fathering provisions.

[REDACTED] stated some of LINCOLN SAVINGS' loans to entities in which [REDACTED] had an interest were reclassified by the bank examiners from Acquisition, Development, and Construction (ADC) loans to direct investments, and therefore could not be extended by LINCOLN SAVINGS AND LOAN without relief from the direct investment rule, as was proposed by [REDACTED] explained that this is what he had meant when he previously had stated in his testimony before a House Sub-Committee that [REDACTED] stood to personally benefit from the proposal [REDACTED] made before the bank board on December 18, 1986.

JAN 19 4 50 PM '90

TELETYPE

/READ /REF 9
0010 MRI 02148

RR RUEHFB FBILA

DE FBIPX #0018 0200013

ZNR UUUUU

R 192250Z JAN 90

FM FBI PHOENIX (58C-PX-41605) (P)

TO DIRECTOR FBI/ROUTINE/

FBI LOS ANGELES/ROUTINE/

BT

UNCLAS

CITE: //3630//

PASS: FOR FBIHQ, PUBLIC CORRUPTION UNIT.

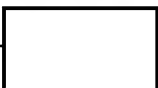
SUBJECT: ALLEGATIONS CONCERNING U.S. SENATORS, ALLAN CRANSTON,
ET AL; CHARLES H. KEATING, JR., DBA ET AL; CORRUPTION OF FEDERAL
PUBLIC OFFICIALS - LEGISLATIVE; OO: PHOENIX/LOS ANGELES.

RE PHOENIX LHM TO THE BUREAU, 12/19/89, AND PHOENIX
TELEPHONE CALLS TO THE BUREAU, 1/18/90 AND 1/19/90.

UACB, PHOENIX AND LOS ANGELES WILL EXTEND THE P.I. FOR AN
ADDITIONAL 30 DAYS BEYOND THE 90 DAY PERIOD AND CONDUCT THE
FOLLOWING INVESTIGATION:

TELETYPE

FAXed to



1-22-90 -RRB

58C-PX-41605-18

WCC RM
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PAGE TWO DE FBIPX 0018 UNCLAS

1. SUBPOENA CALIFORNIA DEMOCRATIC PARTY RECORDS RELATING TO \$85,000 CONTRIBUTION BY ACC IN 1986, WHICH WAS REPORTEDLY SPENT FOR CRANSTON'S RE-ELECTION EFFORT. AFTER THESE RECORDS ARE OBTAINED AND REVIEWED, INTERVIEW APPROPRIATE CALIFORNIA DEMOCRATIC PARTY OFFICIALS.

2. INTERVIEW LOS ANGELES, REGARDING CIRCUMSTANCES OF:

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A. \$100,000 HE REPORTEDLY RAISED FOR THE REPUBLIC PARTY FROM KEATING AND HIS ASSOCIATES.

B. \$172,000 HE REPORTEDLY RAISED FOR CALIFORNIA GOVERNOR GEORGE DEUKMEJIAN FROM KEATING AND HIS ASSOCIATES.

C. LOBBYING HE DID ON KEATING'S BEHALF.

3. SUBPOENA RECORDS FROM THE NATIONAL COUNCIL ON PUBLIC POLICY, A WASHINGTON ORGANIZATION AFFILIATED WITH JOHN GLENN, WHICH RECEIVED \$200,000 FROM ACC. REVIEW RECORDS OF THE CENTER FOR PARTICIPATION IN DEMOCRACY, LOS ANGELES, THE ORGANIZING INSTITUTE, PACIFIC GROVE, CALIFORNIA, THE FORUM INSTITUTE, WASHINGTON, D.C. AND USA VOTES (NEW DIMENSION RESOURCES), WASHINGTON, D.C., WHICH ARE OR HAVE BEEN SUBPOENAED IN CONNECTION WITH A RELATED FEDERAL ELECTION LAW INVESTIGATION. ACC CONTRIBUTED \$400,000 TO CPD, \$325,000 TO THE FORUM INSTITUTE, AND

PAGE THREE DE FBIPX 0018 UNCLAS

\$125,000 TO USA VOTES. THE ORGANIZING INSTITUTE AND CPA WERE
FOUNDED BY [REDACTED]

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4. OBTAIN FROM DOJ INTERVIEW REGARDING THE [REDACTED]
INVESTIGATION CONDUCTED IN 1986-1987.

5. REVIEW U.S. SENATE FINANCIAL DISCLOSURE REPORTS FILED BY
SENATORS DE CONCINI, MC CAIN, CRANSTON, GLENN, AND RIEGLE TO
UNCOVER ANY FINANCIAL RELATIONSHIPS ANY MAY HAVE HAD WITH
KEATING, ACC, OR THE ORGANIZATIONS THAT RECEIVED CONTRIBUTIONS
FROM ACC. THESE REPORTS HAVE ALREADY BEEN OBTAINED.

6. LOCATE AND REVIEW ACC/LSL RECORDS RELATING TO [REDACTED]

[REDACTED] BUSINESS DEALINGS WITH

KEATING.

7. ATTEMPT TO OBTAIN DETAILS OF MC CAIN'S VACATIONS IN THE
BAHAMAS AND OTHER TRAVEL AT KEATING'S EXPENSE.

8. LOCATE AND REVIEW LINCOLN RECORDS RELATING TO LOANS MADE
TO R.A. HOMES, A DEVELOPMENT COMPANY OWNED BY TWO UNPAID MEMBERS
OF DE CONCINI'S CAMPAIGN STAFF.

9. INTERVIEW [REDACTED] WHO, WHILE AT ARTHUR YOUNG,
WROTE THE SENATORS REGARDING THE UNFAIRNESS OF THE LINCOLN EXAM
AND WHO REPORTEDLY MET WITH SENATOR RIEGLE ON 2/26/87.

PAGE FOUR DE FBIPX 0018 UNCLAS

10. INTERVIEW ACC OFFICER [REDACTED] REGARDING HIS INVOLVEMENT IN FUND RAISING AND LOBBYING.

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11. REVIEW TESTIMONY AND EXHIBITS FROM THE U.S. HOUSE OF REPRESENTATIVES BANKING COMMITTEE 1989 INVESTIGATION.

12. SUBPOENA APPOINTMENT BOOKS AND THE LIKE FROM FHLBB [REDACTED] TO DISCOVER CONTACTS THEY HAD WITH POLITICIANS AND ACC/LSL OFFICIALS.

13. INTERVIEW FORMER FHLBB MEMBERS [REDACTED] [REDACTED] REGARDING ACC/LSL LOBBYING.

14. INTERVIEW [REDACTED] WHO, ACCORDING TO [REDACTED] TOLD [REDACTED] TWICE BY TELEPHONE AND ONCE IN PERSON THAT THE REASON FOR TRANSFERRING THE FHLB EXAM OF LSL FROM SAN FRANCISCO TO WASHINGTON WAS RELATED TO KEATING'S INFLUENCE, BUT THAT HE COULD NOT DISCUSS IT FURTHER. INTERVIEW FARM CREDIT ADMINISTRATION OFFICIAL [REDACTED] WHO REPORTEDLY WITNESSED [REDACTED] SAY THIS TO [REDACTED]

15. INTERVIEW [REDACTED] OF THE FHLBB OF SPRINGFIELD, ILLINOIS, WHO PARTICIPATED IN THE LSL EXAM AND WHO REPORTEDLY CLAIMS THAT HE WAS INSTRUCTED TO OVERLOOK CERTAIN POINTS IN THE EXAM.

16. INTERVIEW [REDACTED] AND OTHER FHLB

PAGE FIVE DE FE1PX 0018 UNCLAS

EXAMINERS INVOLVED IN THE SECOND EXAM OF LSL.

17. INTERVIEW [REDACTED] REGARDING
KEATING LOBBYING.

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18. INTERVIEW [REDACTED] TUCSON, ARIZONA, FORMER
[REDACTED] WHO WAS A "TRADITIONALIST" OPERATOR OF THRIFTS.
[REDACTED] DISCUSSED THIS NEW JOB WITH [REDACTED] PRIOR TO ACCEPTING
THE POSITION.

19. INTERVIEW [REDACTED] FHLB, SEATTLE (12TH
DISTRICT) REGARDING HIS OBJECTION OF HAVING LSL TRANSFERRED TO
SEATTLE.

20. INTERVIEW FORMER [REDACTED] AND APPRAISER [REDACTED]
[REDACTED] LOS ALTOS, CALIFORNIA, AND REVIEW REAL PROPERTY RECORDS
OF 215 MAIN STREET, LOS ALTOS, CALIFORNIA, IN CONNECTION WITH
[REDACTED] APPRAISAL OF THIS PROPERTY SHOWING TITLE IN ALAN
CRANSTON. THIS APPRAISAL WAS LOCATED IN LSL RECORDS ACQUIRED BY
SUBPOENA AND SUGGESTS THAT A LOAN BY LSL TO CRANSTON WAS
CONTEMPLATED IN OCTOBER, 1986.

21. INTERVIEW [REDACTED] FORMER DENNIS DE CONCINI
CAMPAIGN TREASURER, WHO WAS INDICTED OCTOBER, 1989, FOR
EMBEZZLEMENT OF CAMPAIGN FUNDS.

PAGE SIX DE FBIPX 0018 UNCLAS

22. INTERVIEW [REDACTED] LOAN OFFICER, OF MERCURY
SAVINGS AND LOAN OF HUNTINGTON BEACH, CALIFORNIA, REGARDING

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[REDACTED] (IT SHOULD
BE NOTED THAT THIS INFORMATION WAS RECEIVED BY THE PHOENIX OFFICE
FROM AN INDIVIDUAL WHO DID NOT WANT THEIR IDENTITY DISCLOSED. A
REVIEW OF [REDACTED]

[REDACTED] APPROPRIATE
SUBPOENAS WILL BE OBTAINED.

BT

#0018

NNNN

Memorandum



To : SAC, LOS ANGELES (58C-PX-41605)
(WCC-4/SARA) (P)

Date 1/5/90

From :

SA [REDACTED]

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b7C

Subject:

UNITED STATES SENATORS ALAN CRANSTON,
DENNIS DE CONCINI, JOHN GLENN,
JOHN MC CAIN, DONALD RIEGLE;
CHARLES H. KEATING, dba
Lincoln Savings and Loan Association of
California and American Continental Corporation,
Phoenix, Arizona;
CORRUPTION OF FEDERAL OFFICIALS - LEGISLATIVE
OO: PHOENIX
OO: LOS ANGELES

The following is an updated chronological list of events in this matter obtained from interviews, newspaper articles, and other investigation to date:

5/1/83 [REDACTED]
the FEDERAL HOME LOAN BANK BOARD (FHLBB)

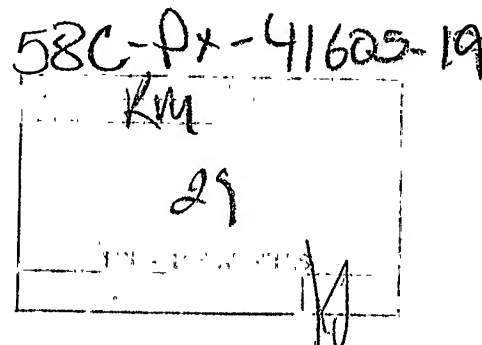
2/22/84 AMERICAN CONTINENTAL CORPORATION (ACC)
buys LINCOLN SAVINGS AND LOAN ASSOCIATION
(LINCOLN) for \$51,000,000

12/7/84 CALIFORNIA DEPARTMENT OF SAVINGS AND LOAN
[REDACTED] approves
\$800,000,000 of direct investments
by LINCOLN immediately before the 12/10/84
deadline for the investments to qualify as
grandfathered investments under new FHLBB
regulation

12/10/84 FHLBB re-proposes direct investment regulation
(12CFR563.9-8) - would generally limit direct
investments to ten percent of assets - contains
grandfather clause

12/84-1/85 Congressman CHARLES "CHIP" PASHAYAN lobbies
[REDACTED] to not adopt direct investment regulation

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1/1/85 [] leaves DEPARTMENT OF SAVINGS AND LOAN ASSOCIATIONS and begins work with TCS FINANCIAL of San Diego

1/18/85 LINCOLN invests \$2,900,000 in TCS FINANCIAL for a 19.1 percent stake sold in private offering - 578,000 shares at \$5.00 per share

1/31/85 FHLBB adopts the ten percent direct investment rule, which is implemented 3/18/85

2/1/85 LINCOLN applies to FHLBB for approval to exceed the impending 10 percent limit on direct investments. The application is later denied

2/13/85 [] writes the FHLBB of San Francisco on behalf of LINCOLN requesting that LINCOLN be exempted from the ten percent direct investment rule

4/8/85 KEATING and associates contribute \$15,000 to Senator PETE WILSON

4/9/85 KEATING and associates contribute \$13,000 to Senator ALAN CRANSTON

5/27/85 [] and UNIVERSITY OF ROCHESTER Professor [] testify, on behalf of LINCOLN, before Government Operations Oversight Subcommittee in opposition to FHLBB's direct investment position

7/20/85 White House staffer [] tells [] that White House Chief of Staff DON REGAN said in June personnel meeting that he wanted [] out soon

7/31-8/15/85 KEATING and associates contribute \$22,000 to Senator GLENN

7/31-8/15/85 KEATING and associates contribute \$16,000 to Senator DENNIS DE CONCINI

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9/30/85 White House staffer [] relays REGAN's request to [] that [] resign

10/1/85 [] told by Washington attorney [] that he had a job offer for [] had previously been so advised by FHLBB member []

10/14/85-
10/25/85 KEATING and associates contribute \$8,000 to Senator CRANSTON

11/13/85 KEATING and associates contribute \$8,000 to Congressman JACK KEMP

11/22/85 [] meets with KEATING and [] in Washington regarding job offer for []

11/ /85 [] California Assemblyman PAT NOLAN successfully lobby CALIFORNIA SAVINGS AND LOAN [] to drop proposed rule that would have limited LINCOLN's investments by requiring 80 percent be mortgage loans

11/26/85 KEATING and [] contribute \$4,000 to DEMOCRATIC CONGRESS CAMPAIGN COMMITTEE

11/27/85 NOLAN, [] lobby CALIFORNIA LEAGUE OF SAVINGS INSTITUTIONS [] to drop support of [] proposal

12/ /85 NOLAN reported receives \$9,000 campaign contribution from KEATING

Late 1985 and
3/86 ACC contributes \$200,000 to NATIONAL COUNCIL ON PUBLIC POLICY - affiliated with Senator JOHN GLENN

3/1/86 KEATING and Senator DON RIEGLE meet in Detroit at opening of HOTEL PONTCHARTRAIN ("Los Angeles Times", 5/30/89)

3/3/86 KEATING and associates contribute \$12,000 to KOLBE

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3/12/86 Regularly scheduled FHLBB examination of LINCOLN begins

3/17-31/86 KEATING and associates contribute \$54,000 to Senator JOHN MC CAIN

4/4/86 KEATING and associates contribute \$10,000 to MATTINGLY

4/ /86

4/9/86 KEATING and associates contribute \$5,000 to NATIONAL ACTION COMMITTEE, identified as Congressman DAVE EVANS' political action committee (PAC)

6/2/86 KEATING and associates contribute \$11,000 to Congressman CHARLES PASHAYAN

7/3/86 KEATING meets with San Francisco examiners and reportedly threatens to sue members of FHLBB

7/25/86 KEATING and associates contribute \$20,000 to Senator PAUL HAWKINS

7/28/86 KEATING and associates contribute \$19,000 to Congressman DOUG BARNARD

8/4/86 writes White House Chief of Staff DONALD REGAN complaining about and mentioning his adverse effect on Republican fundraising.

8/4-6/86 KEATING and associates contribute \$11,000 to Senator CRANSTON

8/14-17/86 KEATING and associates contribute an additional \$13,000 to Congressman PASHAYAN for a total of \$24,000

8/20/86 KEATING and associates contribute \$10,000 to Senator DE CONCINI

8/22/86 KEATING and associates contribute \$4,000 to HARRY REID

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b7C

8/22 - 9/4/86 KEATING and associates contribute \$21,150 to Congressman JON KYL

8/28/86 KEATING and associates contribute \$9,000 to Congressman RHODES

9/ /86 FHLBB member [] quits Board and takes job with KEATING, shortly after refusing to approve a \$407 million fraud investigation of LINCOLN

9/20/86 "Washington Post" writes that LINCOLN officials claim FHLBB harassment. [] asks FHLBB OF SAN FRANCISCO to explain - San Francisco blames LINCOLN for delays in examination

Fall 1986 KEATING and associates reportedly contribute \$85,000 to the CALIFORNIA DEMOCRATIC PARTY for CRANSTON's benefit

10/23/86 CRANSTON's Los Altos commercial property is appraised at the request of LINCOLN

10/31/86 FHLB exam of LINCOLN that began 3/12/86 is completed. Closing meeting with LINCOLN official held on 11/7/86

11/ /86 Atlanta attorney [] a friend of KEATING and borrower from and attorney for LINCLON, is appointed to the FHLBB

12/5/86 and 12/16/86 KEATING meets in San Francisco with FHLB-SF regulator [] regarding LINCOLN exam

12/18/86 [] proposes at FHLBB meeting a rule change that would protect LINCOLN from enforcement of the direct investment rule. [] proposal died for lack of a second

1/27/87 A second closing meeting is held, at KEATING's request, between LINCOLN and FHLB officials

2/13 - 3/18/87 KEATING and associates contribute \$11,000 to Senator TIM WIRTH

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2/26/87 Senator RIEGLE meets with [] then with ARTHUR YOUNG and an ACC official to discuss LINCOLN's dispute with regulators ("Wall Street Journal", 11/15/89)

2/27/87 FHLBB [] abstaining) adopts "equity risk investment rule" to be effective 4/15/87; shortly thereafter, LINCOLN sues to block the rule as unconstitutional

3/3/87 KEATING and [] contribute \$4,000 to DALE EVANS' PAC

3/3/87 LINCOLN contributes \$100,000 to AMERICA VOTES, later known as USA VOTES

3/6/87 Senator RIEGLE meets with [] - says Arizona senators are quite concerned about FHLBB regulation of LINCOLN. Shortly thereafter, RIEGLE and [] visit KEATING in Phoenix and after a helicopter tour, RIEGLE reportedly states, "I like what I see here. I can reason with []" ("American Banker", 11/14/89)

3/13/87 [] of ARTHUR YOUNG (later of ACC) writes letter to senators critical of regulators

3/18/87 LINCOLN sues FHLBB, challenging the direct investment limitations

3/19/87 []

3/24/87 Senator JOHN MC CAIN meets with KEATING and KEATING asks for MC CAIN's negotiating assistance. MC CAIN declines and six-year friendship ends. DE CONCINI meets separately with KEATING during this time period ("Arizona Republic", 10/17/89)

3/11-24/87 KEATING and associates contribute at least \$70,750 to RIEGLE; KEATING has luncheon for RIEGLE at HOTEL PONTCHARTRAIN on 3/23/87

4/1/87 [] resigns from FHLBB

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4/2/87 [] meets with Senators DE CONCINI, MC CAIN, CRANSTON and GLENN in DE CONCINI's office regarding LINCOLN

4/9/87 [] and three other FHLBB regulators meet in DE CONCINI's office with DE CONCINI, MC CAIN, CRANSTON, GLENN and RIEGLE - DE CONCINI tries to make deal for LINCOLN - offers that LINCOLN will invest 55 percent of assets in home mortgages if FHLBB yields on direct investment rule and property appraisals

4/20/87 FHLB Report of Examination sent to LINCOLN

5/1/87 FHLB OF SAN FRANCISCO recommends to FHLBB that LINCOLN be seized. This recommendation is the conclusion of a 285-page Recommendation and Statement of Supervisory Concerns

6/30/87 [] leaves FHLBB post; replaced by []

7/ /87 LINCOLN sues FHLBB over leaks of information regarding LINCOLN examination; lawsuit is dropped on 7/29/87, after assurances received from WALL

7/10/87 CENTER FOR PARTICIPATION IN DEMOCRACY and THE ORGANIZING INSTITUTE (originally known as MONTEREY LEADERSHIP TRAINING INSTITUTE) are incorporated - []

7/23/87 FHLBB's Office of Regulatory Policy, Oversight and Supervision (ORPOS), recommends LINCOLN be placed in conservatorship

8/28/87 LINCOLN informed of proposed field visit by FHLB OF SAN FRANCISCO examiners in connection with re-examination based on LINCOLN's claim of new facts. LINCOLN responds that no further information would be given without a court order

9/2/87 Following a meeting of LINCOLN representatives and FHLBB [] and [] the FHLB OF SAN FRANCISCO was ordered not to conduct further examinations of LINCOLN - and LINCOLN was then free of supervision until mid July 1988

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9/24/87 KEATING meets with [] regarding 1986 FHLB OF
SAN FRANCISCO examination and requests FHLBB take
an independent review of San Francisco findings

9/30/87
(approx.) KEATING meets with CRANSTON in Washington;
KEATING agrees to contribute \$250,000 to USA
VOTES and FORUM INSTITUTE

10/16/87 FHLBB's ORPOS (with a new executive director),
completes review of San Francisco exam of
LINCOLN, concludes that LINCOLN is being
operated in an "unsafe and unsound manner", and
recommends FHLBB proceed with a cease and
desist order

10/29/87 KEATING and associates contribute \$5,500 to
DE CONCINI - brings total contribution to
\$39,000

11/5/87 ACC contributes \$225,000 to the FORUM INSTITUTE,
and \$25,000 to USA VOTES, an association chaired
by CRANSTON and managed by NEW DIMENSION
RESOURCES

1/28/88 [] meets with KEATING regarding KEATING's
complaints of news leaks and length of exam.
This meeting may have been arranged by
CRANSTON

2/2/88 KEATING and associates contribute \$4,000 to
DENNIS KOLBE

2/4/88 KEATING meets with FHLBB executives - San
Francisco examiners excluded

2/10/88 CRANSTON visits KEATING in Phoenix at the
expense of NEW DIMENSION RESOURCES, and
picks up \$400,000 ACC contribution to the
CENTER FOR PARTICIPATION IN DEMOCRACY and
an additional \$100,000 ACC contribution
to the FORUM INSTITUTE

2/12/88 KEATING writes [] that he is in "full
agreement" with a proposed Memorandum of
Understanding that would transfer supervision of
LINCOLN to FHLB-Seattle

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2/22/88 FHLB-SF again recommends conservatorship for LINCOLN to FHLB's Enforcement Review Committee; condemns ORPOS' proposed Memorandum of Understanding

3/ /88 Senator RIEGLE returns contributions made by KEATING and associates

3/11/88 KEATING contributes \$10,000 to Congressman DALE EVANS' PAC (NATIONAL ACTION COMMITTEE)

4/9/88 KEATING and associates contribute \$11,500 to Senator ORRIN HATCH

5/5/88 [redacted] vote to transfer regulation of LINCOLN from San Francisco to Washington

5/20/88 FHLBB and LINCOLN sign memo of understanding, providing for a new examination to be conducted in Washington after FHLBB's Enforcement Review Committee votes to conduct a new exam of LINCOLN

6/8/88 KEATING and associates contribute \$100,000 to REPUBLICAN NATIONAL COMMITTEE and attend dinner with Vice President GEORGE BUSH

10/18-24/88 KEATING and associates contribute \$41,000 to Senator CHIC HECHT

1/17/89 KEATING visits [redacted] and reveals his intention to sell LINCOLN

2/14/89 FHLBB begins third examination of LINCOLN

4/ /89 CRANSTON urges [redacted] and FHLBB member [redacted] to reconsider sale of LINCOLN to [redacted] ("Los Angeles Times", 5/27/88)

4/ /89 At KEATING's request, DE CONCINI telephones [redacted] and asked him to support the sale of LINCOLN to [redacted] ("Mesa Tribune", 4/23/89). [redacted] reportedly calls California officials in support of the sale

4/11/89 [redacted]

4/13/89 ACC files for Chapter 11 reorganization

4/14/89 FHLBB seizes LINCOLN - placed in conservatorship

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9/18/89

Senator DE CONCINI says he will return \$48,000 in campaign contributions made by KEATING and associates

11/8/89

Congressman PASHAYAN says he will return \$26,000 in campaign contributions made by KEATING and associates

12/4/89

announces his resignation

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12/21/89

Senator WILSON announces he has returned \$17,500 in campaign contributions received from KEATING and his associates in one package on 4/8/85



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58c-PX-41605-20

SEARCHED	<i>Saf</i>	INDEXED	<i>Saf</i>
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SEN. RIEGLE

He has more to answer than just the specific charges

Sen. Don Riegle, D-Mich., is entitled to put the best face he can on his role in the Lincoln Savings & Loan debacle, as well as to a presumption of innocence on the specific ethics committee charge. The issues go deeper, though, and will require more skillful rebuttal than anything the senator has said yet, whether his "you're another" argument about the Free Press or his attempt to use tape of his performance in a WXYZ-TV (Channel 7) news program.

The senator faces both a legal/ethical problem and a political problem, and that makes his defense of his actions somewhat awkward. His efforts to deal with his political problem have the ironic effect of making less defensible his plea that he not be judged until the Senate ethics committee has completed its inquiry into his actions and those of four other senators who met with federal banking regulators to discuss the treatment of Lincoln Savings & Loan and the chairman of its holding company, Charles Keating. If he asks to be judged politically on the basis of his own performance on a TV program, he invites others to draw their own conclusions and make their own judgments about his performance without waiting for the committee's report.

Sen. Riegle may well have a better chance of winning the specific argument before the ethics committee than he does of winning the political argument. The question of whether he acted improperly may in the end matter less than whether it is thought by his constituents that he served them well or poorly. We don't happen to think the Senate — or the House or the Reagan administration — served the country very well during this period. They lost sight of their oversight function and helped to assure that the

country would not get control of savings and loan practices and their potential impact until unnecessary damage was done. Sen. Riegle didn't really answer that complaint in his letter to us, or his TV performance, or anything else. He didn't answer it because there is no good answer: Too many watchdogs, including the present chairman of the Senate Banking Committee, were focusing on the wrong questions about federal regulation. The country will pay a price that is far greater than the legal/ethical questions the Senate ethics committee must still try to answer.

(Indicate page, name of newspaper, city and state.)

Detroit News
Detroit, Mi.

Date: 1/14/90
Edition: Editorials

Title: Senator Riegle

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Submitting Office: Detroit

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Damage control?

In announcing Kevin Gottlieb's resignation as chief of staff for the Senate Banking Committee, Sen. Don Riegle, D-Mich., denied that the resignation had anything to do with the senator's own difficulties over his relations with the savings and loan industry. The senator, though, has a plain need to limit the liabilities he faces as much as possible as he tries to wrestle with political as well as ethical questions about his relations with the industry.

Mr. Gottlieb had a lot to do with shaping the way the Senate and Sen. Riegle dealt with the savings and loan bailout law. In recent weeks, important questions have been raised about some of his connections during an 18-month period in 1987-88, when he was out of government, and about the way he has reported speaking fees during the time he has worked for Sen. Riegle. Mr. Gottlieb is knowledgeable about the savings and loan business, and that is an asset. As expensive and as controversial as the bailout legislation is, however, we would feel a lot more comfortable if Mr. Gottlieb had maintained a bit more independence of the S&Ls.

Sen. Riegle and Mr. Gottlieb both have to deal with a political question as well as a specific ethical issue: Did the senator and his staff represent all his constituencies as aggressively and effectively as they should have in a matter of very great potential cost and obvious importance? Sen. Riegle argues that he did, that he was arguing for a strong regulatory stance. The record looks somewhat different to us. What we see is a senator and his principal advisor who have compromised their claim to independence and strength and who are scrambling now to control the political and possibly legal damage that has resulted.

(Indicate page, name of newspaper, city and state.)

Detroit News
Detroit, Mi.

Date: 1/14/90
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Classification:
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Detroit News

Detroit, Mi.

Date: 1/14/90

Edition: Editorials

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Classification: Detroit

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Bill Day Detroit Free Press
Political Editor

Regal



Riegle

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Detroit Free Press
Detroit, Mi.

Date: 1/15/90

Edition: 10A

Title: Keating Defends Seeking
Help of Senators for
S & L

Character: or 58C-PX-41605

Classification:
Submitting Office: Detroit

Indexing:

Keating defends seeking help of senators for S&L

BY DAVID EVERETT
Free Press Washington Staff

WASHINGTON — Charles Keating Jr. said Sunday that he sought help from Michigan Democrat Donald Riegle Jr. and four other U.S. senators in 1987 because his now-failed savings and loan had investments in their states.

Speaking on NBC-TV's "Meet the Press," Keating defended his political contributions to the five, whose ties to Keating are being reviewed by the Senate Ethics Committee. Keating faces criminal investigations, a \$1.1 billion federal fraud suit and other legal problems from the failure of Lincoln Savings & Loan of Irvine, Calif.

"They had in common the presence of our S&L in a major way in their states," Keating said of the five. "We had successful projects all over that gave employment, gave economic benefits to the community."

Keating's empire, which crumbled last year amid federal fraud charges, included the Hotel Pontchartrain in downtown Detroit.

Keating's comments support Riegle's contention that he was interested in the businessman's case because Keating was a constituent who had invested in Michigan.

On the TV show, Keating said he gave money to the senators' campaigns because he wanted to be part of

the political and government process, not because he wanted to buy influence.

That statement contrasts with a widely circulated comment Keating made last April on the question of whether his financial contributions were attempts to influence politicians. "I want to say in the most forceful way I can, I certainly hope so," he said at the time.

On Sunday, Keating called that comment "dumb."

"I wanted to say that I wanted to be involved in the process," he said Sunday. "It's important to me how this country goes, and it was particularly important to me the way the savings and loan industry went."

Keating repeated earlier statements that he believes there was nothing wrong with the five senators meeting with federal regulators in 1987 to discuss Lincoln.

The Senate Ethics Committee and Justice Department are reviewing the conduct of the five. Officials estimate the failure's cost to taxpayers may be more than \$2.3 billion.

Riegle denies any impropriety, saying campaign contributions from Keating and his associates had no impact on his conduct. Riegle later returned \$78,250, saying he wanted to avoid any appearance of impropriety.

58C-PX-41605-24

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Date 2/7/90

TO : LOS ANGELES (58-PX-41605)
 PHOENIX (58-PX-41605)

FROM : SAC, WMFO (58-PX-41605) (RUC)

ALLEGATIONS CONCERNING U. S. SENATORS ALAN CRANSTON,
 DENNIS DE CONCINI, JOHN GLENN, JOHN MCCAIN, DON RIEGLE;
 CHARLES H. KEATING, JR., DBA ET AL;
 CORRUPTION OF FEDERAL PUBLIC OFFICIALS - LEGISLATIVE
 (OO:PX/LA)

RePXairtel, 2/7/90.

In view of the fact that no investigation remains
 outstanding in WMFO, WMFO is considering this matter RUC. Should
 additional investigation be necessary, WMFO will reopen instant
 investigation.

FILE REVIEWED
 DATE 4/6/94
 INITIALS [Signature]

② - Los Angeles
 2 - Phoenix
 1 - WMFO
 WJH:wjh
 (5)

58C-PX-41605-25

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Per [Signature]